

City of Roanoke, Virginia

Comprehensive Annual Financial Report

For the Fiscal Year July 1, 2004 to June 30, 2005

Prepared by the City of Roanoke Department of Finance

**CITY OF ROANOKE, VIRGINIA
TABLE OF CONTENTS**

	<i>Page Number</i>
INTRODUCTORY SECTION	
Letter of Transmittal	3
Certificate of Achievement for Excellence in Financial Reporting	16
Directory of Principal Officials	17
Organizational Chart	18
 FINANCIAL SECTION	
<i>Independent Auditors' Report</i>	20
<i>Management's Discussion and Analysis (Required Supplementary Information)</i>	23
 Basic Financial Statements	
Government-Wide Financial Statements	
Exhibit A Statement of Net Assets	35
Exhibit B Statement of Activities	36
 Fund Financial Statements	
Governmental Funds Financial Statements	
Exhibit C Balance Sheet	38
Exhibit D Reconciliation of the Balance Sheet to the Statement of Net Assets	39
Exhibit E Statement of Revenues, Expenditures, and Changes in Fund Balances	40
Exhibit F Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	41
 Proprietary Funds Financial Statements	
Exhibit G Statement of Net Assets	42
Exhibit H Statement of Revenues, Expenses, and Changes in Fund Net Assets	44
Exhibit I Statement of Cash Flows	46
 Fiduciary Fund Financial Statements	
Exhibit J Statement of Fiduciary Net Assets	48
Exhibit K Statement of Changes in Fiduciary Net Assets	49
 Notes to Basic Financial Statements	 51
 Required Supplementary Information (Unaudited)	
Budgetary Comparison Schedule – General Fund	100
Schedule of Funding Progress	103
Note to Budgetary Comparison Schedule – General Fund	104
 Supplementary Information	
Combining and Individual Fund Financial Statements	
Exhibit L-1 Combining Statement of Net Assets – Internal Service Funds	106
Exhibit L-2 Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds	107
Exhibit L-3 Combining Statement of Cash Flows – Internal Service Funds	108
Exhibit M-1 Statement of Fiduciary Assets and Liabilities – Agency Fund	109
Exhibit M-2 Statement of Changes in Fiduciary Assets and Liabilities – Agency Fund	110

**CITY OF ROANOKE, VIRGINIA
TABLE OF CONTENTS**

**Page
Number**

STATISTICAL SECTION (UNAUDITED)

Table 1	General Fund Revenues by Source.....	112
Table 2	General Fund Expenditures and Transfers by Function	112
Table 3	Local Tax Revenues by Source	113
Table 4	General Property Tax Levies and Collections.....	113
Table 5	Assessed and Estimated Actual Value of Taxable Property	114
Table 6	Property Tax Rates and Tax Levies	114
Table 7	Ratio of General Bonded Debt to Total Assessed Value and Bonded Debt Per Capita.....	115
Table 8	Computation of Legal Debt Margin	116
Table 9	Ratio of Annual Debt Service Expenditures for General Long-Term Debt to Total General Expenditures.....	116
Table 10	Demographic Statistics.....	117
Table 11	Property Value, Construction and Bank Deposits.....	117
Table 12	Principal Property Taxpayers	118
Table 13	Taxable Retail Sales	118
Table 14	Miscellaneous Data	119

COMPLIANCE SECTION

Schedule of Expenditures of Federal Awards	122
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	129
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	130
Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants.....	132
Schedule of Findings and Questioned Costs	134

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INTRODUCTORY SECTION

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November 23, 2005

The Honorable Mayor, Members of the City Council and Citizens of Roanoke, Virginia

In accordance with Section 25.1(f) of the Roanoke City Charter, we are pleased to present the City of Roanoke (the City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Charter requires the City to issue an annual report on its financial position and activity and that the report be audited by an independent firm of certified public accountants. This report was prepared by the Department of Finance in conformity with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data as presented is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of the various funds and component units. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

The CAFR is presented in the following four sections:

- (1) Introductory Section – This section is unaudited and includes this letter of transmittal, the City's Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting, a list of the City's principal officials and an organizational chart;
- (2) Financial Section – This section includes the independent auditors' report on the basic financial statements, management's discussion and analysis (MD&A), basic financial statements, notes to the basic financial statements, required supplementary information and combining fund financial statements;

- (3) Statistical Section – This section is unaudited and includes selected financial and demographic information, generally presented on a multi-year comparative basis; and
- (4) Compliance Section – This section includes the Schedule of Expenditures of Federal Awards, the independent auditors' reports on internal controls and compliance with applicable laws and regulations as required by the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Schedule of Findings and Questioned Costs.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Profile of the Government

Roanoke, the largest city in the Commonwealth of Virginia west of Richmond, is located at the southern end of the Shenandoah Valley, approximately 170 miles west of Richmond and 235 miles southwest of Washington, DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the United States. In addition, the City lies at the region's crossroads of major rail and highway systems, making it the principal trade, industrial, transportation, medical and cultural center of western Virginia.

Chartered by the Commonwealth of Virginia as a city in 1884, Roanoke encompasses a land area of 43 square miles and operates under a council-manager form of government. The City's 2005 estimated population, 92,600, accounts for almost 32 percent of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Salem and the Counties of Botetourt, Craig, Franklin and Roanoke.

The primary government provides a full range of services including general government administration, public safety, public works, recreational activities, judicial administration, health and welfare activities and community development activities. The City also owns and operates a civic center coliseum, several parking facilities and a historic food market.

The financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the basic financial statements, conforms to the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by (GASB) Statement No. 39. The accounting and reporting principles of the GASB are based on the fundamental concept that publicly elected officials are accountable to their constituents, and the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

The City's reporting entity includes one blended and two discretely presented component units. A component unit is a legally separate entity which meets one of three conditions: the governing board is appointed by the primary government, the entity is fiscally dependent on the primary government, or excluding the entity could potentially result in misleading financial reporting. The component unit should be blended with the primary government if the entities share a governing body and if the component unit almost exclusively provides services or benefits to the primary government; otherwise, it must be presented discretely.

The blended component unit is the City-owned Greater Roanoke Transit Company (Transit Company) which is responsible for managing Roanoke's major mass transit system. It is reported as an enterprise fund of the primary government.

The two discretely presented component units are the School Board of the City of Roanoke and the Roanoke Redevelopment and Housing Authority (RRHA). A seven-member appointed School Board supervises the operation of the City's school system. The school system receives significant financial support from the City. The City Council also appoints the seven-member board of the Roanoke Redevelopment and Housing Authority. Although the RRHA is financially independent of the City, its overall housing plans require the approval of City Council. The City supports real estate acquisitions made by the RRHA through local taxes and debt issuances. Additionally, the City has issued an irrevocable letter of credit to support a specific real estate purchase of the RRHA. Both the School Board and the RRHA are presented in separate columns in the government-wide financial statements

to emphasize that they are legally separate from the primary government and to differentiate their financial positions and results of operations from those of the primary government.

The annual budget document contains the financial policies of the City and reflects the balance between total proposed expenditures and total anticipated revenues. As required by City Code, the City Manager submits a recommended budget to City Council by May 1st each year for the fiscal year beginning July 1st. After an extensive study process and a public hearing to receive citizen input, the City Council adopts the budget on or before May 15th.

Economic Condition and Outlook

Fiscal year 2005 revenue performance reflected an improved local economy compared to recent fiscal years. General Fund revenues as a whole increased approximately 5% compared to FY04. The real property tax continued to provide significant growth in revenue, as a result of assessment increases and new construction. Real property taxes provide approximately 26% of total General Fund revenues. The taxable real property base grew in excess of 7% for FY05. Personal property tax revenue increased significantly during the year. Strong growth in this revenue is attributed to increased sales of new vehicles, higher assessed values in FY05 for used vehicles, and efforts by the Commissioner of the Revenue to assure vehicles registered with the Department of Motor Vehicles were properly assessed. Sales Tax and Business and Professional Occupational License Tax revenues also grew during the year. These taxes are sensitive to the health of the local economy, and growth in these is a positive sign of the state of our city.

Early in fiscal year 2005, the City issued general obligation bonds to finance several important capital improvement projects. The bonds totaled \$46 million and provided funding for high school renovations, improvements to the Police Building – Phase II, a new Fire/EMS facility which will house administrative and operational facilities, an expansion to the Civic Center, and funding for property acquisition for additional parking facilities.

Roanoke's economy is also strengthened by the diversity of our employment opportunities, with representation from every major type of business as defined by the US Census Bureau. New businesses and expansion of existing businesses are discussed in the following section.

Challenges the City faced during the year included the rising costs of healthcare, an increased pension plan contribution, and funding of employee raises. Police department personnel received an additional 4% raise over and above the overall employee pay raise which averaged 3%. Additionally, the formation of the Western Virginia Water Authority in July 2004, a separate legal entity formed to provide water and wastewater treatment services, led to a decrease in Charges for Services revenue.

As part of its fiscal year 2006 budget process, the City was again able to meet the goals of maintaining service levels to citizens, providing additional funding for employee compensation and benefits, future debt service, and capital replacement and maintenance.

Major Initiatives

Roanoke is committed to creating jobs for its citizens and generating new sources of tax revenue by strengthening and diversifying the local economy. Employers in the City of Roanoke provided over 48% of all jobs in the Roanoke Valley as of the third quarter of 2004. Furthermore, the Roanoke Metropolitan Statistical Area had an unemployment rate of 3.7% as of June 2005. This was lower than the state unemployment rate for the same time period.

The City has made progress on the development and expansion of two major business parks. During the current year, ground was broken on the \$10 million Carilion Biomedical Institute (CBI) office and lab facilities. When completed, CBI will move its offices, along with Medical Enzymatics, American Biosystems and Luna Innovations, to the Riverside Centre for Research & Technology (RCRT). Plans for a second building in the area are being finalized, and Carilion Health Systems, located near RCRT, is completing its \$105 million expansion of its medical facilities. Future RCRT expansion is planned utilizing the current site of the recently purchased Roanoke City Mills.

At the Roanoke Centre for Industry and Technology (RCIT), designed for light manufacturing and warehousing, SEMCO Manufacturing completed a \$6 million manufacturing plant, adding 25 jobs to the local economy. There are four sites still available at the Centre with a fifth site in the final stages of grading. An extended Blue Hills Drive will soon provide access to additional sites in the park.

FreightCar Roanoke, Inc. now builds aluminum coal cars at the once vacant East End Shops of Norfolk Southern Railway. The Illinois-based company spent over \$5 million on renovations and has hired 200

employees. In the next three years, an additional 200 jobs are expected to be provided by the shops. Furthermore, the UnitedHealth Group plans an expansion to its operations which will create 250 new jobs for local residents.

Grading and infrastructure improvements have begun on the future site of the Ivy Market, a village shopping center planned for the corner of Franklin Road and Wonju Street. The shopping center will have approximately 150,000 square feet of retail space, resulting in a \$20 million investment. Planned for this site are a 58,000 square foot Ukrop's grocery store, a Walgreen's, retail and office space, and restaurants.

The City also promotes development of its downtown. Many renovations of downtown buildings are currently underway to provide both retail and residential opportunities. HSMM, formerly Hayes, Seay, Mattern and Mattern, is relocating its corporate staff to the former InSystems building on Warehouse Row. The old Colonial Bank building will house the new HomeTown Bank, as well as upscale condominiums on the upper floors. The State and City building will continue to house Frank L. Moose Jewelers and will also add new upscale condominiums. Other structures currently undergoing renovations to create additional downtown living space include the old Harris Office Furniture building and the Ewald-Clark building. The City has also pledged \$4 million for construction of the new Art Museum of Western Virginia. While the project is scheduled to begin this fall, it has already been featured in an article in the Washington Post due to its innovative architectural design.

Renovation is under way in the Gainsboro neighborhood, Roanoke's oldest community. Originally established in the mid-1800's, Gainsboro was recently named to the Virginia Landmarks Register by the state Department of Historic Resources. It was a residential and cultural center for the City at one time, and the Gainsboro Neighborhood Revitalization Initiative establishes several major goals for the restoration of the neighborhood. Various projects are already under construction including the Claude Moore Education Complex, containing a culinary arts school, in the former Ebony Club on Henry Street. Renovation of the old Hotel Dumas is planned to create the new Dumas Center for Artistic and Cultural Development, where Opera Roanoke will make its new home, and renovation plans for the First Street/Martin Luther King, Jr. Bridge and Memorial are in progress.

Other economic development initiatives in the City include an expansion in the former Crossroads Mall for Advance Auto Parts, which includes renovation of an additional 73,000 square feet for offices. The old Heironimus warehouse will be transformed into a new home for the Wallace Agency, which will provide affordable studio work space for artists, dance studios, as well as conventional office spaces.

In the Valley View Mall area, a Starbucks and Smokey Bones Barbecue & Grill have opened, and Charlotte Russe and The Cookie Store have located in the mall itself. Elsewhere, Ross Dress for Less opened at Towne Square, while a Fresh Market recently opened in the Towers Shopping Center.

Significant upgrades to the Roanoke Regional Airport runways, a new control tower, and hangars continue, with a total cost estimated at \$128.5 million. The airport improvements are funded primarily by Federal funds.

The Roanoke River Flood Reduction project is currently under way in conjunction with the United States Army Corps of Engineers. This project consists of a combination of channel widening and levy construction along nine miles of the Roanoke River within the City. It will reduce annual flood damages along the Roanoke River by approximately 50% and is significant to many areas of Roanoke including much of the downtown area. An additional \$5 million was recently awarded by the Commonwealth to help with the costs involved in the flood reduction project.

The City is also committed to providing available housing in quality neighborhoods, an important economic development tool, by taking a multi-tiered approach to expanding its housing options and by diversifying housing opportunities. The City has designated Community Development Block Grant funds to targeted neighborhoods to achieve greater impact on housing and urban development. Gainsboro is currently planning and implementing programs necessary for its neighborhood upgrades. The Colonial Green project, covering 23 acres, will contain approximately 220 single family houses, condominiums, and apartments, as well as development for commercial uses. Other upscale housing developments under construction include the Pinnacle Ridge, Southwood, and Wellington subdivisions. Homes in these locations will be valued at \$250,000 and up. Additionally, the 400 block of Day Avenue, owned by Christian Housing Fellowship, LLC, was purchased with city funds by

the Roanoke Redevelopment and Housing Authority for conversion to owner-occupied housing. The City has purchased the approximately 140 acre Countryside Golf Course for development of upscale housing and commercial activities.

In 2005, the City sponsored a groundbreaking new competition to stimulate innovative and affordable housing alternatives. The Cradle 2 Cradle (C2C) Home Competition received more than 625 design submissions from 41 countries worldwide and garnered international recognition. This unique approach to home design emphasized the utilization of environmentally compatible building methods and materials. Plans are under way to construct several of the winning designs over the next few months at sites within the City.

The City's new brand, adopted in late 2003, is being used to enhance the City's tourism and economic development efforts, while communicating Roanoke's quality of life to the worldwide community.

The City continues to receive positive national publicity for the quality of life enjoyed by its citizens and potential business prospects. Partners for Livable Communities, a nonprofit leadership organization, honored Roanoke as one of America's most livable cities for striking a "careful balance" between business development and the natural environment. The City was also named the eleventh best city in the US in 2004 by the publication, *Cities Ranked and Rated*. *Expansion Magazine* again ranked Roanoke one of the fifty hottest cities for business expansions and relocations. Roanoke received the International City Managers' Association 2005 Program Excellence Award for Innovations in Local Government Management for its innovative approach in managing the rising cost of health care. The Center for Digital Government honored Roanoke as the fifth most efficient city in using technology to serve its citizens, while *Expansion Management* magazine's July 2004 Second Annual Mayor's Challenge for site selectors choosing a location ranked the Roanoke Valley 40th in the nation overall in its six major categories of public education, college-educated work force, health care costs and availability, quality of life, logistics infrastructure, and government taxes and spending.

Prospects for the Future

The City's Comprehensive Plan, Vision 2001 was adopted to guide development decisions for years to come. Following the adoption of the Plan, the City has undertaken a major rewriting of the zoning ordinance. After much public input, the new proposed ordinance will be considered by City Council in

November. The future adoption of this zoning ordinance will create the zoning parameters necessary for village centers, live-work space, design overlays and other elements of the Comprehensive Plan.

As mentioned previously, an extension of Blue Hills Drive at the Roanoke Centre for Industry & Technology will open up new sites in the park for future development. Construction at the Riverside Centre for Research & Technology will also continue to afford new opportunities for economic development.

The Western Virginia Water Authority officially commenced operations on July 1, 2004. This cooperative effort between the City and Roanoke County will plan for the future water needs of the valley and more effectively manage water resources. Additional information is available in the footnotes to the financial statements. The City is also working on the development of a utility system master plan to examine the adequacy of the City's utility infrastructure and recommend needed improvements. The Roanoke Valley continues to seek out new ways to collaborate to deliver the best services to our citizens. Other regional initiatives include the delivery of fire and emergency medical services, transportation services, and cooperation between local governments and businesses to attract a low-fare carrier to the Roanoke Regional Airport.

The City continues to plan for its future and provide the necessary funds to not only protect its current assets, but also to create new opportunities. This approach has served the City well and will be the basis for continued growth.

Accounting System and Budgetary Controls

The City has established a comprehensive internal control framework designed to both safeguard the government's assets against loss from unauthorized use or theft and to properly record and adequately document transactions in order to compile information for the presentation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Within the upcoming five year period, the City plans to upgrade or replace a number of its financial systems with the goals of obtaining enterprise functionality and of utilizing technology that maximizes

the user's ability to retrieve data. The systems included in the scope of this project include financial, payroll/human resources, budget, and tax/treasury.

Current system replacement projects underway include the accounting system and the budget system. All financial and accounting records of the City and Schools are currently maintained on the Advantage Financial System, a product of CGI-AMS, designed especially for local governments. Advantage is an integrated financial management system supporting the requirements for local government accounting and reporting established by the Governmental Accounting Standards Board (GASB). An upgrade to the Advantage browser version is planned for July 1, 2006. This project will include the base financial system as well as the purchasing, accounts receivable, and fixed assets subsystems. Additionally, the City is implementing a new budget preparation system with a Phase I implementation planned for December 2005. The budget system will streamline the budget process and promote a paperless work environment. Phase II, to be implemented in subsequent years, involves an upgrade to a web-based version of the budget system. Plans for financial system replacement also include the implementation of a tax/treasury system, which is currently underway.

City of Roanoke Pension Plan

The City of Roanoke Pension Plan is a self-administered, multiple-employer retirement plan, which covers all City employees except the Sheriff's employees, who participate in the Virginia Retirement System. The City funds the pension plan on an actuarial basis. The contribution required for the year ended June 30, 2005 was \$5,447,515. This was \$832,583 more than the required contribution in the preceding fiscal year. Consistent with prior years, the City continues to fully fund its pension plan. Additional information is available in Note 12 to the basic financial statements and in the separately issued Comprehensive Annual Financial Report of the City of Roanoke Pension Plan.

Capital Financing and Debt Service

The City's current debt policy was approved by City Council in 1999 and was most recently amended in 2005. The debt policy includes guidelines that: (a) net debt will not exceed 5% of assessed value of real estate; (b) 50% or more of aggregate outstanding principal will be redeemed within ten years; and (c) non-proprietary general obligation debt services shall not exceed 10% of General Fund expenditures. The City monitors these ratios to ensure ongoing compliance with the debt policy.

Additional disclosures regarding the City's long-term obligations are provided in the MD&A, Notes 9 and 10 to the basic financial statements, and Table 8 in the Statistical section.

In conjunction with the preparation of an annual operating budget, the City prepares a five-year Capital Improvement Program Update. This specifies the capital improvement and construction projects which will be funded over the upcoming five-year period in order to maintain or enhance the City's \$344 million in net capital assets. Detailed project descriptions, cost estimates, and funding sources are included. The City's Capital Improvement Program for FY 2006 through FY 2010 represents \$258 million of public improvements to the City's schools, public buildings, infrastructure, parks and various economic development projects. Resources accumulated to meet these priority needs are accounted for in the Capital Projects and Proprietary Funds.

Cash Management

As discussed more fully in Notes 1 and 2 to the basic financial statements, the City utilizes the pooled cash concept in order to maximize investment flexibility and achieve the best possible investment return. The City obtains the highest rate available by utilizing competitive bidding for investments among banks, professional money managers and participation in state investment pools.

Cash temporarily idle during the year is invested in instruments as allowed by the Code of Virginia, Chapter 3, Title 26, and in accordance with the City's investment policy. The objectives of this policy are to invest the maximum available funds while providing sufficient flexibility to meet cash requirements. Additionally, the policy strives to assure security of principal and to obtain the highest competitive yield on investments.

Risk Management

The City's risk management program is designed to protect against accidental losses that would affect the City's ability to fulfill its responsibility to the taxpayers and the public. To limit its exposure to the various risks of loss, the City carries several types of insurance and is self-insured for workers' compensation and certain property and liability claims. The City is also self-insured for employee health insurance with stop loss provisions to limit catastrophic claims. The Risk Management Division manages the self-insurance programs with the assistance of third-party administrators. Revenues are generated through charges to employees and departments to pay for claims costs. An actuarial

evaluation is performed annually by a third party actuary to ensure the City's accrued liability for unpaid losses is adequate.

To compliment its risk management program, the City provides an extensive wellness program, including an on-site doctor, coordinated by the City's occupational health office. Additional disclosures regarding the City's risk management program are provided in Note 13 to the basic financial statements.

Auditing

City Council appoints the members of the Audit Committee and the Municipal Auditor. The Audit Committee acts in an advisory capacity to City Council in all matters relating to the City's financial records. The Municipal Auditor provides a continuing review of the internal controls and financial operations of the City, coordinates audit efforts and regularly reports to the Audit Committee.

Certificates of Achievement for Excellence

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Roanoke, Virginia, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A copy of the GFOA Certificate of Achievement is included in the Introductory section of the CAFR.

A Certificate of Achievement is valid for a period of one year. The City of Roanoke has received a Certificate of Achievement for the last thirty-one consecutive years (fiscal years ended 1974 - 2004). We believe this report conforms to the Certificate of Achievement program requirements and standards, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for the fiscal year ended June 30, 2005. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide and a communications device. The City has been a recipient of the Distinguished Budget Award for the last 20 consecutive years.

Acknowledgments

We would like to express our appreciation to the staff of the Department of Finance for their dedication in assuring the financial integrity of the City and the preparation of this report. Appreciation is also expressed to City Council for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jesse A. Hall".

Jesse A. Hall

Director of Finance

A handwritten signature in cursive script that reads "Darlene L. Burcham".

Darlene L. Burcham

City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Roanoke,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF ROANOKE
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2005

Members of City Council

C. Nelson Harris
Beverly T. Fitzpatrick, Jr.
M. Rupert Cutler
Alfred T. Dowe, Jr.
Sherman P. Lea
Brenda L. McDaniel
Brian J. Wishneff

Mayor
Vice Mayor

Constitutional Officers

Brenda L. Hamilton
George M. McMillan
Donald S. Caldwell
Evelyn W. Powers
Sherman A. Holland

Clerk of Circuit Court
Sheriff
Commonwealth's Attorney
Treasurer
Commissioner of Revenue

City Council Appointed Officials

Darlene L. Burcham
Jesse A. Hall
William M. Hackworth
Mary F. Parker
Troy A. Harmon

City Manager
Director of Finance
City Attorney
City Clerk
Municipal Auditor

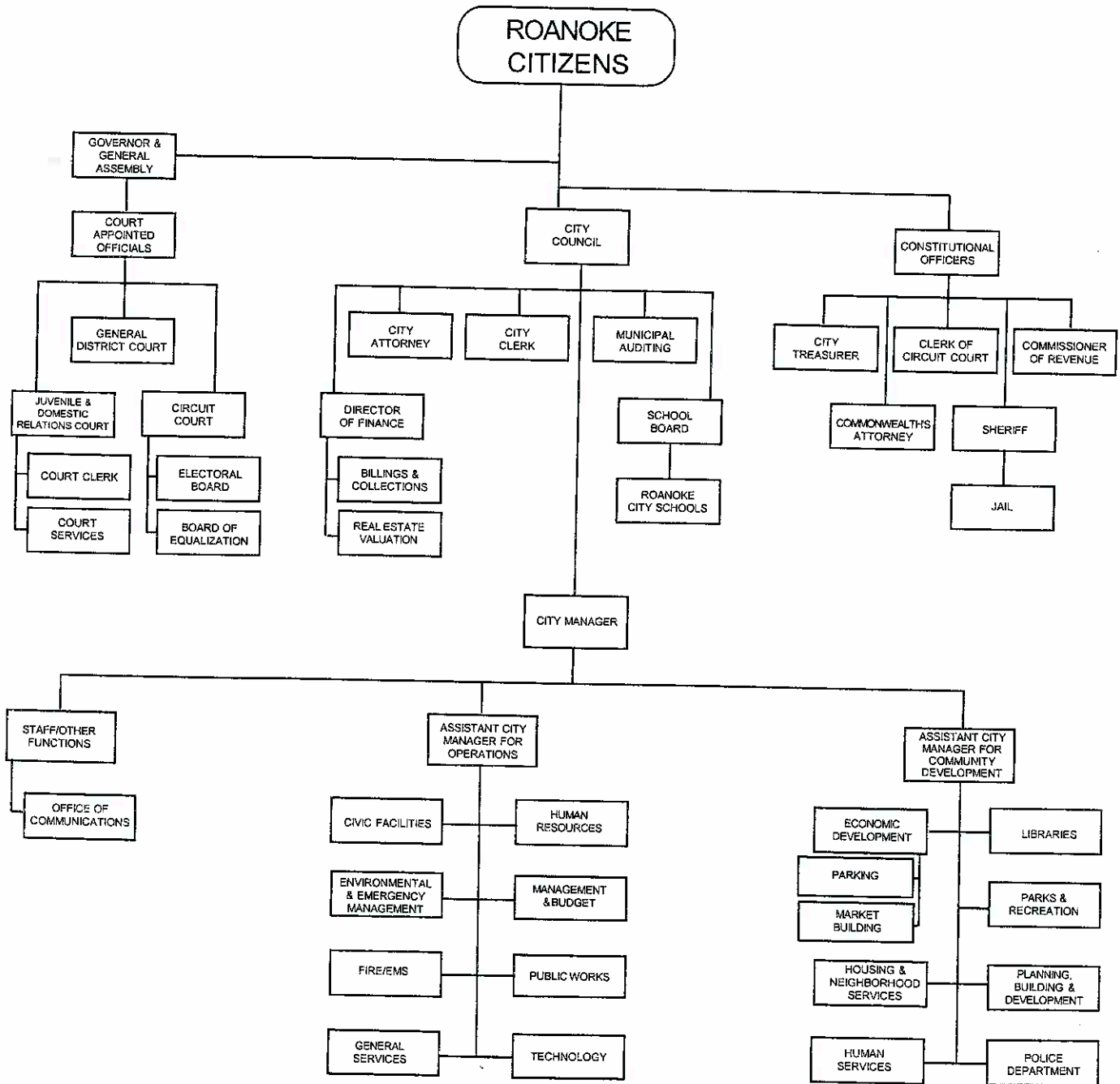
Other City Officials

Rolanda B. Russell
George C. Snead, Jr.

Assistant City Manager
Assistant City Manager

CITY OF ROANOKE, VIRGINIA

ORGANIZATIONAL CHART



FINANCIAL SECTION



KPMG LLP
Suite 1710
10 South Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report

The Honorable Members of
City Council
City of Roanoke, Virginia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Roanoke, Virginia (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Roanoke, Virginia as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2005 on our consideration of the City of Roanoke, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis on pages 23 through 34, the Budgetary Comparison Schedule – General Fund, the Schedule of Funding Progress, and the Notes to Budgetary Comparison Schedule on pages 100 through 104 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund financial statements (Exhibits L-1, L-2, L-3, M-1 and M-2) and the statistical section are presented for purposes of additional analysis and are not a required part of these basic financial statements, and the accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The combining and individual fund financial statements (Exhibits L-1, L-2, L-3, M-1 and M-2) and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

KPMG LLP

November 23, 2005

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**CITY OF ROANOKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

The following discussion and analysis of the City of Roanoke's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets, excluding those of its discretely component units, on the government-wide basis, totaled \$264,829,266 at June 30, 2005. Of this amount, \$35,429,016 may be used to meet ongoing obligations to citizens and creditors, and \$229,124,117 is invested in capital assets, net of related debt. Net assets of \$276,133 are restricted to pay for upgrades to the wireless E911 system.
- On a government-wide basis for governmental activities, the City had expenses net of program revenues of \$157,782,089, which totaled \$3,979,949 less than the general revenues, net of transfers of \$161,762,038.
- At June 30, 2005, the City's governmental funds balance sheet reported total ending fund balances of \$81,233,233. Of this amount, \$60,643,535 remains in the various governmental funds of the City as unreserved.

OVERVIEW OF THE FINANCIAL STATEMENTS

Our discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements present two types of statements, each with a different snapshot of the City's finances. The focus is on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both short-term and long-term information about the City's overall financial status. The fund financials focus on the individual parts of City government, reporting the City's operations in more detail than the government-wide statements, which present a longer-term view. Presentation of both perspectives provides the user a broader overview, enhances the basis for comparisons, and better reflects the City's accountability.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question, "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

One of the main goals of these two statements is to report the City's net assets and changes that affected net assets during the fiscal year. The change in the City's net assets, the difference between assets and liabilities, is one way to measure the City's financial health, or financial position. Increases or decreases in net assets are indicators of whether the City's financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the City's property tax base and the condition of the City's infrastructure should also be considered in assessing the overall financial health of the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

In the Statement of Net Assets and the Statement of Activities, the City's fund-based activity is classified as follows:

Governmental activities – Most of the City's basic services are reported here, including general government, judicial administration, public safety, public works, health and welfare, parks and recreation, and community development departments. Property taxes, other local taxes, and federal and state grants finance most of these activities.

Business-type activities – The City's Greater Roanoke Transit Company (Transit Company), Civic Facilities, Parking, and Market Building operations are reported here as the City charges a fee to customers designed to cover all or most of the cost of services it provides.

Component unit – The City includes two discretely presented component units in this report, the School Board of the City of Roanoke and the Roanoke Redevelopment and Housing Authority (RRHA). Although legally separate, component units are important because the City of Roanoke is financially accountable for them.

Fund Financial Statements

The fund financial statements begin on page 38 and provide detailed information about the most significant funds, not the City as a whole. The City has three types of funds:

Governmental funds – Most of the City's basic services are included in governmental funds. Fund-based statements for these funds focus on how resources flow into and out of those funds and the balances left at year-end that are available for future spending. These funds are reported on the modified accrual basis of accounting, which measures cash and other liquid assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term overview that helps the reader determine the financial resources that can be spent in the near future to finance the City's programs. The differences between governmental activities as reported in the government-wide and fund financial statements are reconciled in Exhibits D and F on pages 39 and 41.

Proprietary funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, utilize the accrual basis of accounting, and their statements provide both short and long-term financial information.

The City's enterprise funds, one type of proprietary fund, are the same as the government-wide business-type activities; however, the fund financial statements provide more detail and additional information, such as cash flows. The City's enterprise funds include the Transit Company, Civic Facilities, Parking, and Market Building funds.

The City uses internal service funds, another type of proprietary fund, to report activities that provide supplies and services by one City department to other City departments on a cost reimbursement basis. Internal service fund rates are evaluated annually and adjusted as considered necessary with the goal of providing adequate revenues to cover operating and capital expenditures on an ongoing basis. Funds included in this category are Department of Technology, Fleet Management, and Risk Management. Internal service fund activities are reported as governmental activities on the government-wide statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiduciary funds – Resources held for other governments, individuals, or agencies not part of the City are reported as fiduciary funds. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Roanoke Pension Plan is reported as a pension trust fund. The City accounts for assets held on behalf of the Hotel Roanoke Conference Center Commission as an agency fund. Agency funds are custodial in nature and do not involve measurement of results of operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

A comparative analysis of government-wide information is as follows:

Summary of Net Assets:

The following table presents a condensed summary of net assets:

**Summary of Net Assets
as of June 30, 2005 and 2004
(In Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004 Restated	2005	2004 Restated	2005	2004 Restated
Current and other assets	\$ 156.0	\$ 143.4	\$ 13.3	\$ 3.8	\$ 169.3	\$ 147.2
Capital assets, net	347.4	321.7	53.3	50.9	400.7	372.6
Total assets	503.4	465.1	66.6	54.7	570.0	519.8
Other liabilities	50.8	37.9	2.3	0.2	53.1	38.1
Long-term liabilities	234.7	213.3	17.4	7.9	252.1	221.2
Total liabilities	285.5	251.2	19.7	8.1	305.2	259.3
Net assets:						
Invested in capital assets, net of related debt	187.1	164.8	42.0	42.6	229.1	207.4
Restricted	0.3	0.2	-	-	0.3	0.2
Unrestricted	30.5	48.9	4.9	4.0	35.4	52.9
Total net assets	\$ 217.9	\$ 213.9	\$ 46.9	\$ 46.6	\$ 264.8	\$ 260.5

The City's combined net assets increased from \$260.5 million to \$264.8 million as a result of the increase in net assets of governmental activities of \$4.0 million and of business-type activities of \$0.3 million. Unrestricted net assets, the portion of net assets that can be used to finance the day-to-day operations of the City, totaled \$35.4 million. Net assets invested in capital assets, net of related debt, represents the amount of capital assets owned by the City, including infrastructure, net of any outstanding debt issued to fund the asset purchase or construction. Net assets are reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. In fiscal year 2005, grant funds received, but not yet spent, from the Virginia State Wireless E911 Services Board to complete

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

upgrades to the wireless E911 system are reported as restricted net assets of governmental activities. Additionally, the Western Virginia Water Authority (WVWA) has agreed to pay the City amounts equal to debt service on general obligation debt retained by the City upon WVWA's creation. This receivable is reported as a restricted asset on the Statement of Net Assets.

Summary of Changes in Net Assets:

The following table shows the revenues and expenses of the government:

Summary of Changes in Net Assets
For the Years Ended June 30, 2005 and 2004
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for services	\$ 14.7	\$ 15.7	\$ 7.2	\$ 32.3	\$ 21.9	\$ 48.0
Operating grants and contributions	56.2	51.3	3.3	2.8	59.5	54.1
Capital grants and contributions	0.2	0.7	1.0	4.7	1.2	5.4
General Revenues:						
Property taxes	81.1	75.2	-	-	81.1	75.2
Local portion of state sales tax	19.7	19.2	-	-	19.7	19.2
Business and professional occupational license taxes	11.3	10.8	-	-	11.3	10.8
Utility taxes	13.9	13.8	-	-	13.9	13.8
Prepared food and beverage taxes	8.0	7.7	-	-	8.0	7.7
Commonwealth share-personal property taxes	8.3	7.7	-	-	8.3	7.7
Cigarette taxes	1.9	1.9	-	-	1.9	1.9
Transient room taxes	2.3	2.2	-	-	2.3	2.2
Other taxes	8.9	10.0	-	-	8.9	10.0
Interest and investment income	2.4	1.3	0.1	0.2	2.5	1.5
Other	6.9	6.1	0.5	0.4	7.4	6.5
Total Revenues	235.8	223.6	12.1	40.4	247.9	264.0

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summary of Changes in Net Assets For the Years Ended June 30, 2005 and 2004 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Expenses						
General Government	12.5	12.1	-	-	12.5	12.1
Judicial Administration	7.1	6.6	-	-	7.1	6.6
Public Safety	56.0	52.1	-	-	56.0	52.1
Public Works	25.4	27.6	-	-	25.4	27.6
Health and Welfare	35.1	32.0	-	-	35.1	32.0
Parks, Recreation and Cultural	9.3	6.1	-	-	9.3	6.1
Community Development	9.9	9.6	-	-	9.9	9.6
Education	54.7	51.5	-	-	54.7	51.5
Economic Development	7.2	1.2	-	-	7.2	1.2
Interest and Fiscal Charges	11.7	8.6	-	-	11.7	8.6
Transit Company	-	-	7.6	7.1	7.6	7.1
Water	-	-	-	11.1	-	11.1
Water Pollution Control	-	-	-	10.8	-	10.8
Civic Facilities	-	-	4.6	5.1	4.6	5.1
Parking	-	-	2.0	1.9	2.0	1.9
Market Building	-	-	0.5	0.5	0.5	0.5
Total Expenses	228.9	207.4	14.7	36.5	243.6	243.9
Increase (Decrease) in Net Assets before Transfers	6.9	16.2	(2.5)	25.8	6.7	42.0
Transfers	(2.9)	(5.0)	2.9	5.0	-	-
Increase in Net Assets	4.0	11.2	0.3	9.1	4.3	20.3
Net Assets, Beginning, as reported	213.9	198.2	46.6	169.4	260.5	367.6
Restatement of Prior Period	-	4.5	-	(131.9)	-	(127.4)
Net Assets, Ending	\$ 217.9	\$ 213.9	\$ 46.9	\$ 46.6	\$ 264.8	\$ 260.5

The restatement of prior period balances are due to the formation of the Western Virginia Water Authority (WVWA) on July 1, 2004. The assets associated with the Water and Water Pollution Control funds were transferred to the WVWA upon its creation. Detailed information regarding these transactions is disclosed in Note 1 to the financial statements.

The property tax classification, which comprises approximately 34% of total revenue generated by governmental activities, includes real estate tax, the local portion of personal property tax, and public service corporation taxes. Real estate tax revenue, the largest source of revenue for the City, totaled \$59.8 million. The assessed value of real property in the City increased 8% for the 2005 calendar year as a result of a reassessment increase and new construction. The real estate market continued to reflect strong sales, positively impacted by low interest rates.

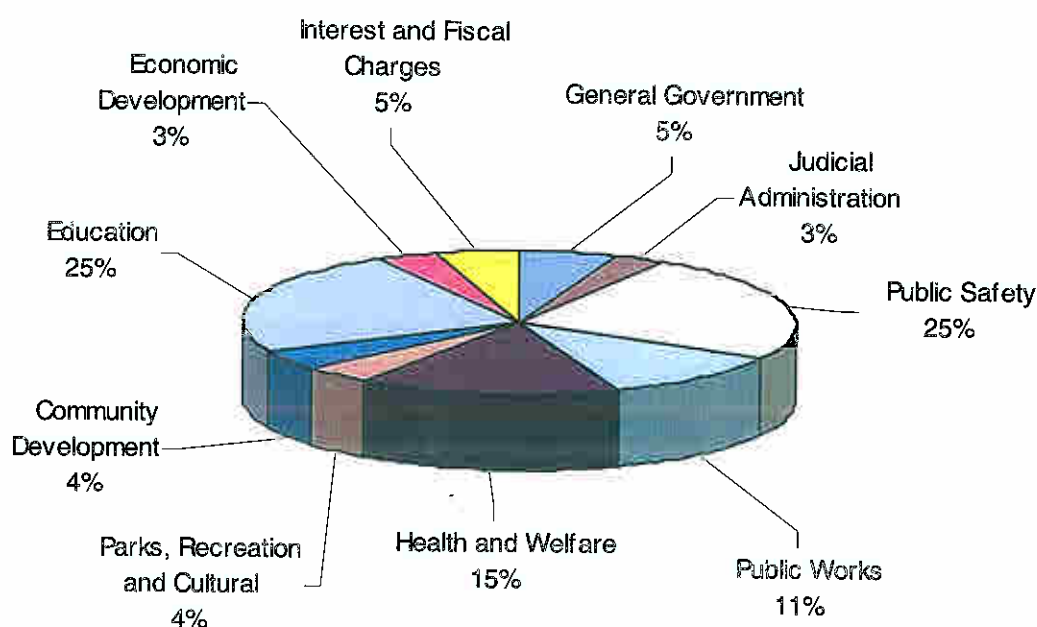
In 1998, the Commonwealth enacted the Personal Property Tax Relief Act for personal vehicles. The Commonwealth share of personal property under the act was 70% for the current fiscal year and is included in the other taxes category. Personal property tax revenue, including the Commonwealth share, totaled \$24.6 million. The net assessed value of personal property increased 8.3% from 2004 to 2005 due to increased sales of new vehicles, higher assessed values in FY05 for used vehicles, and efforts by the Commissioner of the Revenue to assure vehicles registered with the Department of Motor Vehicles were properly assessed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Street Paving, and Street Maintenance are included in the Public Works category. The Comprehensive Services Act and social services programs accounted for the majority of expenses reported in the Health and Welfare category.

Approximately \$2.9 million in cash transfers were made to business-type activities, which represented operating subsidies and the transfer of prior year fund balances appropriated to business-type activities. No capital assets were transferred to business-type activities during the current fiscal year.

Expenses of the governmental activities are shown below by functional area:



The net assets of governmental activities increased \$4.0 million during 2005. Significant current year activities affecting net assets include:

- Growth in real estate revenues led performance of local tax revenues. Due to a continued strong housing environment, current year revenues continued to grow. Personal property taxes were the second largest tax revenue and also experienced strong growth in the current fiscal year. Much of this growth is attributed to increased vehicle sales and valuations. Sales tax and prepared food and beverage revenues continued to grow as the result of an improved economy.
- Expenses of general government programs were contained well within budget as a means of responding to the continued budgetary pressures. Vacant positions were generally held thirty days or more prior to advertising to reduce personnel costs.

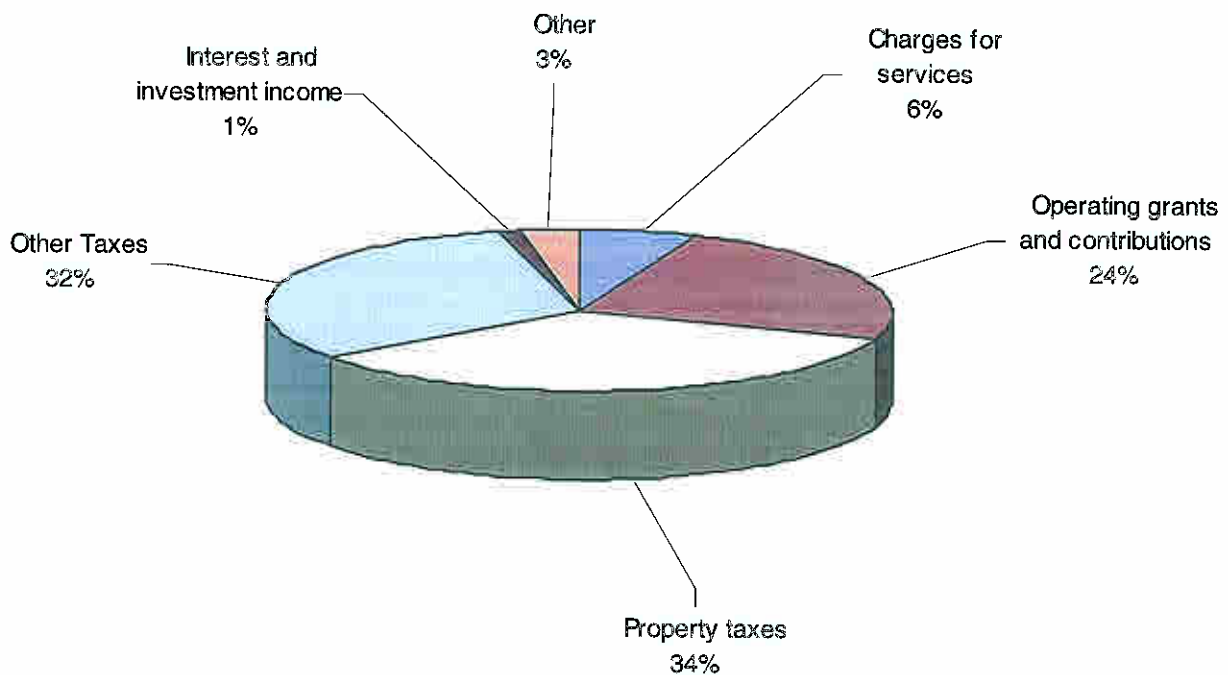
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Sales taxes, utility taxes, business and professional occupational license taxes, prepared food and beverage taxes, transient room taxes, cigarette taxes and utility taxes comprise the majority of other local taxes collected by the City. Other taxes comprise approximately 32% of total revenues generated for governmental activities.

Operating grants and contributions comprise approximately 24% of governmental activities revenues. Street maintenance funds, the jail block grant, reimbursement for social service programs, funding received under House Bill 599 for law enforcement, and reimbursement for shared expenses of the constitutional officers are some of the major sources of revenue included in this category.

Charges for services include items such as fines, court fees, inspection fees, reimbursements for housing prisoners, garbage collection fees, and recreation and other program-based fees.

Revenues generated for governmental activities are presented below by category:



Public Safety expenses comprised approximately 25% of expenses of the governmental activities. Operations of the Jail, Police and Fire Departments are included in this category, along with expenses of Emergency Medical Services, Communications (E911 Call Center), and the cost of juvenile justice programs.

Education expenses comprises 25% of governmental activities. Funding of \$54.7 million was provided to the Roanoke City School Board to support School operations.

Public Works and Health and Welfare expenses comprised approximately 11% and 15%, respectively, of governmental activities expenses. Expenses for Solid Waste Management, Building Maintenance,

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The net assets of business-type activities increased approximately \$0.3 million, after restatement, during 2005. Significant current year activities affecting net assets include:

- Revenues of most of the Enterprise Funds are designed to generate working capital for future capital needs.
- An increase in operating and capital subsidies provided by the General Fund to the Civic Facilities and Market Building Funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

For the fiscal year ended June 30, 2005, the governmental funds reflect a total fund balance of \$81,233,233. Approximately \$60.6 million of this amount constitutes unreserved fund balance, which is available for spending for services and capital projects. Unreserved fund balance is designated to purchase capital equipment, pay self-insured claims, fund future debt service requirements, and pay for future years' capital projects expenditures. The remainder of fund balance is reserved for encumbrances, which indicates that it has already been committed to liquidate contracts and purchase orders outstanding at year-end.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund unreserved fund balance was \$19,660,766, while the total fund balance was \$21,050,254. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 9.0% of the total General Fund expenditures and other financing uses, while total fund balance represents 9.7% of that same amount.

The fund balance of the General Fund increased by \$16,552,249 during the current fiscal year. The General Fund begins each fiscal year with budgeted revenue and expenditure amounts that are equal. During the year, a portion of the previous year's fund balance is appropriated and expended. In addition, encumbrances unpaid at the end of the prior year are liquidated, increasing expenditures. However, in the current fiscal year, the formation of the Budget Stabilization Reserve, which serves as a funding source for emergencies or unforeseen declines in revenue, provided a one-time increase to fund balance of approximately \$15.5 million. The creation of this reserve, along with an increase in local tax and intergovernmental revenue, contributed to an overall growth of fund balance for the year.

Local taxes generated the majority of General Fund revenue, totaling approximately \$145.7 million in fiscal year 2005. Reassessments and a strong housing market provided growth in real estate tax revenue, and strong performance of the personal property tax led the performance of other local taxes. An increase in sales tax revenues and prepared food and beverage revenues are indicative of a continued positive trend in consumer spending in Roanoke. Furthermore, a tax rate increase by the Commonwealth generated additional local taxes in recordation tax revenue.

Intergovernmental revenue is the second largest source of General Fund revenues, generating approximately \$58.0 million in fiscal year 2005. Almost all of this revenue is received from the Commonwealth and includes reimbursement for social services programs, law enforcement funding received under House Bill 599, jail block grant and street maintenance funds. Reimbursement received under the Comprehensive Services Act increased from the prior year. Additionally, street maintenance

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

funding and revenues from the jail block grant increased, as well as funding from the State Compensation Board for Constitutional Offices.

The Capital Projects Fund balance increased approximately \$4.2 million due partially to the issuance of general obligation bonds to fund future capital projects. Transfers from the General and Grant Special Revenue Funds totaling \$5.3 million represented cash funding to projects and the transfer of prior years' fund balance appropriated to the Capital Projects Fund. Capital outlay totaled \$40.8 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues exceeded the original budgeted revenues by \$22,579,294 and final budgeted revenues by \$2,445,007, or 1.0% due to strong growth in real estate and personal property tax revenues. General property taxes exceeded the final budget by 2.0%. Other local taxes exceeded final budgeted revenues by 2.4%. The local tax excess revenues were mainly from sales tax, utility taxes, recordation taxes, and the prepared food and beverage tax. The intergovernmental category did not meet budget estimates. This was partially due to a decreased allocation of ABC and Wine taxes by the Commonwealth and partially due to Social Service programs which were both under the expenditure budget and the reimbursement-based revenue budget. Additionally, the City share of the State-prorated Recordation tax was adversely affected by disproportionate growth in Roanoke compared to that of Northern Virginia.

General Fund expenditures and transfers were greater than the original budget by \$7,416,533 or 3.5% due to supplemental appropriations, but were less than the final amended budget by \$1,716,232 or 0.78%. In an effort to continue to carefully manage the City's expenditures, spending at the departmental level was closely monitored during the fiscal year, and policies centered on maximizing salary lapse were continued. During fiscal year 2005, City Council amended the budget several times. These budget amendments or supplemental appropriation ordinances were primarily for the following purposes:

- To reappropriate funds to pay commitments in the form of encumbrances established prior to June 30, 2004 but not paid by that date. Encumbrances for General Fund purchase orders authorized and issued, but for which goods and services were not received or paid by June 30, 2004 totaled \$1,552,656.
- To appropriate the June 30, 2004 designated General Fund balance of \$2,695,349 to finance capital equipment and a variety of projects in other funds of the City.
- To appropriate additional grant funds of \$1,134,960 received under the Comprehensive Services Act and \$222,000 received for street maintenance.

CAPITAL ASSETS

As of June 30, 2005, the City's capital assets for its governmental and business-type activities amounted to \$400,679,471, net of accumulated depreciation. This investment includes land, historical treasures, construction in progress, land improvements, buildings and structures, equipment and infrastructure.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The total net increase (additions less retirements and depreciation) in the City's investment in capital assets for the current fiscal year was \$28.1 million or 7.5%.

Capital Assets Net of Depreciation (In Millions)

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	Balance	Balance	Balance	Balance	Balance	Balance
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Land and Improvements	\$ 32.4	\$ 31.4	\$ 4.2	\$ 4.2	\$ 36.6	\$ 35.6
Buildings and Improvements	114.7	115.3	38.5	36.0	\$ 153.2	151.3
Equipment	19.1	19.3	6.3	6.4	\$ 25.4	25.7
Infrastructure	109.3	105.6	-	-	\$ 109.3	105.6
Construction in Progress	71.9	50.1	4.3	4.3	\$ 76.2	54.4
Total	\$ 347.4	\$ 321.7	\$ 53.3	\$ 50.9	\$ 400.7	\$ 372.6

The changes in each category of Capital Assets are presented in detail in note 6 to the Basic Financial Statements.

Major capital asset events during the fiscal year included the following:

- Construction of the new Patrick Henry High School continued with expenditures of \$14.8 million. Other educational projects included expenditures of \$2.5 million on the Westside Elementary renovation and \$3.4 million on improvements to the Roanoke Academy of Math and Science.
- Major governmental projects on facilities other than schools included expenditures of \$2.8 million on Phase II Police Building expansion. Improvements to the downtown Market Building entailed current year spending of \$2.5 million. Ongoing work on the Roanoke River Flood Reduction project also resulted in nearly \$677,000 of current year capital asset additions.
- Business-type capital asset activities included current year costs of approximately \$2.5 million on the Civic Center Phase II expansion. The Downtown West Parking Garage renovation also resulted in over \$500,000 of capital asset additions during the fiscal year.

LONG-TERM DEBT

At June 30, 2005, the City's long-term liabilities, excluding compensated absences and claims payable, totaled \$264,407,392 comprised of \$246,199,111 related to governmental activities, and \$18,208,281 related to business-type activities. Total debt increased by \$33,730,326 during the fiscal year. Changes in long-term debt during fiscal year 2005 resulted from payment of principal on existing debt, issuance of the Series 2004B general obligation public improvement bonds, and issuance of the Series 2004B VPSA bonds to fund the Lincoln Terrace elementary school renovation project. Detailed information regarding these changes in long-term debt is disclosed in Notes 9 and 10 to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

With its most recent rating, the City maintained ratings of AA, Aa3, and AA from Fitch Ratings, Moody's Investor Service and Standard & Poor's Ratings Services, respectively.

The Charter of the City of Roanoke and Code of Virginia limits the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund supported-tax supported debt only, as some long-term liabilities of business-type funds will be met by revenues generated by those funds. The City considers long-term debt of its Civic Facilities and Parking Enterprise Fund to be self-supporting. Additionally, the City contractually receives from the Western Virginia Water Authority repayment on \$33,435,000 of general obligation debt. The City's tax-supported debt of \$242,669,111 less the Debt Service Fund Balance of \$988,465, designated for the repayment of debt service, is below the legal debt limit of \$491,240,359.

The School Board Component Unit relies upon the City to provide full faith and credit for any debt obligations incurred. Therefore, the City reports School Board Component Unit long-term liabilities, other than claims payable and compensated absences, as its own. In addition to bonded debt and capital lease obligations, the City's long-term obligations include compensated absences and claims payable. Additional information concerning the City's long-term liabilities is presented in notes 9 and 10 to the Basic Financial Statements.

Interest and fiscal charges for 2005 were \$11,652,145 or 5.1% of total governmental activities expenses.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the end of the first quarter of 2005, the unemployment rate, not seasonally adjusted, for the Roanoke Metropolitan Statistical Area (MSA) was 3.4%. This is a decrease over the first quarter 2004 of 0.6%. This trend is led by an overall increase in the civilian labor force with an increase in civilian employment of 2,990 positions. The majority of jobs in the City are in the Health Care and Social Assistance industry per the Virginia Employment Commission. For the quarter ended March 2005, Roanoke's unemployment was the same as the state average and below the national average.

Roanoke's per capita income grew from the measurement year 2002 to 2003, the most recently available data from the Bureau of Economic Analysis. While Roanoke's income levels trail state and national averages, they compare quite positively when adjusted for the cost of living.

Fiscal year 2005 performance was indicative of an improving local economy due to continued strong performance of the real estate tax as well as growth in personal property tax, sales tax, and prepared food and beverage tax.

While the economy has continued to display some positive growth in early fiscal year 2006, economists predict a slowing economy. Interest rates are expected to continue to increase, and related thereto, the real estate market is expected to slow down. Additionally, the heightened cost of fuel negatively impacts numerous elements of the economy.

Real estate values in Roanoke continued to grow during fiscal year 2005. The average value of a single family dwelling increased from \$101,000 in FY 2004 to almost \$110,000 in FY 2005. The number of housing units increased slightly.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Roanoke's strength as a retail center continued to strengthen in the past fiscal year due to the opening of new stores in the Valley View Mall area. The strength of our sales tax and our position nationally as a leader in per capita sales is indicative of the importance of retail to our economy.

Local taxes are a primary measure of the health of the local economy and comprise 71% of all budgeted fiscal year 2006 General Fund revenues. The General Fund adopted budget for 2006 reflects growth of 5.9% in the local taxes category, primarily due to continued growth in real estate assessments. The fiscal year 2006 budget was adopted with a planned increase to the Prepared Food and Beverage tax. Effective July 1, 2005, this tax increased from 4% to 5%, and additional revenues will be used to fund planned capital improvements, most notably planned renovations to William Fleming High School. The General Fund adopted budget for 2006 anticipates revenues from the Commonwealth at 5.3% above the 2005 adopted budget, mainly in the area of funding for social services programs. Funding from the Commonwealth for the jail block grant and street maintenance is also anticipated to increase in fiscal year 2006. Charges for services revenues are expected to increase 5.3% in 2006 in accordance with the adopted Budget. Fees for services provided by Emergency Medical Services were again increased in accordance with federal regulations.

Performance through the first four months of fiscal year 2006 indicates moderate growth in local tax revenues. Growth is led by increased real estate revenues, up 9% through October 2005 as anticipated based on the assessments for the year. The sales tax is up approximately 5%, and both the transient room tax and the prepared food and beverage tax revenues have grown. We anticipate modest growth in fiscal year 2006 as a whole.

To ensure that the City maintains a competitive compensation package to retain high-performing employees, a 3.0% average employee raise was adopted as part of the fiscal year 2006 budget. Furthermore, Fire/EMS and Sheriff/Jail personnel will receive an additional 4% raise effective January 1, 2006. Additional contributions to cover the cost of employee health and dental insurance were also adopted. Funding to the Schools increased \$2.5 million or just over 4.7% from the adopted level of FY 2005. Funding in the amount of \$2.9 million is included in the 2006 budget to support critical capital improvement needs in the community.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives and their uses. Questions concerning this report or requests for additional information should be directed to the Director of Finance, PO Box 1220, Roanoke, Virginia 24006, telephone (540) 853-2821. The City's website address is www.roanokeva.gov.

CITY OF ROANOKE, VIRGINIA
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	School Board	Roanoke Redevelopment and Housing Authority
Assets					
Cash and Cash Equivalents	\$ 19,225,365	\$ 5,369,681	\$ 24,595,046	\$ 2,988,902	\$ 27,120
Investments	77,432,208	6,398,056	83,830,264	-	5,000,502
Interest and Dividends Receivable	710,409	-	710,409	-	20,172
Due from Component Unit	3,113,878	-	3,113,878	-	-
Due from Other Governments	10,436,561	578,590	11,015,151	8,497,633	856,843
Due from Primary Government	-	-	-	-	5,658,209
Internal Balances	(318,653)	318,653	-	-	-
Taxes and Accounts Receivable, Net	6,803,808	86,676	6,890,484	33,643	97,620
Note Receivable	4,368,796	-	4,368,796	-	5,632,187
Inventory	173,992	352,929	526,921	-	334,099
Other Assets	611,294	180,784	792,078	-	617,203
Restricted Assets					
Cash and Cash Equivalents	-	-	-	-	1,564,876
Investments	-	-	-	-	105,245
Due from Other Government	33,435,000	-	33,435,000	-	-
Deposits	-	-	-	-	50,433
Capital Assets					
Land, Construction in Progress, and Historical Treasures	121,310,301	8,507,754	129,818,055	-	-
Other Capital Assets, Net	226,072,120	44,789,296	270,861,416	3,942,348	60,023,397
Capital Assets, Net	<u>347,382,421</u>	<u>53,297,050</u>	<u>400,679,471</u>	<u>3,942,348</u>	<u>60,023,397</u>
Total Assets	<u>503,375,079</u>	<u>66,582,419</u>	<u>569,957,498</u>	<u>15,462,526</u>	<u>79,987,906</u>
Liabilities					
Accounts Payable and Accrued Expenses	11,480,211	957,633	12,437,844	2,582,377	765,533
Accrued Interest Payable	4,025,349	371,817	4,397,166	-	147,430
Due to Component Unit	5,495,750	-	5,495,750	-	-
Due to Other Governments	603,422	-	603,422	16,821	132,998
Due to Primary Government	-	-	-	3,113,878	2,524,356
Unearned Revenue	4,605,403	-	4,605,403	-	-
Other Liabilities	-	31,352	31,352	-	2,120,250
Long-term Liabilities Due Within One Year	<u>24,538,946</u>	<u>918,195</u>	<u>25,457,141</u>	<u>4,782,453</u>	<u>7,439,306</u>
Long-term Liabilities Due in More Than One Year, Net	<u>234,715,621</u>	<u>17,384,533</u>	<u>252,100,154</u>	<u>2,823,360</u>	<u>18,523,422</u>
Total Liabilities	<u>285,464,702</u>	<u>19,663,530</u>	<u>305,128,232</u>	<u>13,318,889</u>	<u>31,653,295</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	187,115,017	42,009,100	229,124,117	3,942,348	44,069,877
Restricted for:					
Capital Projects	276,133	-	276,133	-	141,077
Unrestricted	<u>30,519,227</u>	<u>4,909,789</u>	<u>35,429,016</u>	<u>(1,798,711)</u>	<u>4,123,657</u>
Total Net Assets	<u>\$ 217,910,377</u>	<u>\$ 46,918,889</u>	<u>\$ 264,829,266</u>	<u>\$ 2,143,637</u>	<u>\$ 48,334,611</u>

See Notes to Basic Financial Statements.

**CITY OF ROANOKE, VIRGINIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 12,505,925	\$ 3,038,133	\$ 1,045,467	\$ 100
Judicial Administration	7,093,904	5,334,458	3,015,225	-
Public Safety	56,027,791	4,768,397	12,166,335	2,097
Public Works	25,413,778	445,256	9,835,330	106,714
Health and Welfare	35,063,221	595,797	25,871,209	-
Parks, Recreation and Cultural	9,269,834	372,186	269,013	40,335
Community Development	9,849,351	131,038	4,005,958	-
Education	54,737,434	-	-	-
Economic Development	7,175,953	-	-	90,000
Other	125,801	-	-	-
Interest and Fiscal Charges	11,652,145	-	-	-
Total Governmental Activities	<u>228,915,137</u>	<u>14,685,265</u>	<u>56,208,537</u>	<u>239,246</u>
Business-Type Activities:				
Transit Company	7,609,131	1,565,511	3,252,566	1,010,893
Civic Facilities	4,610,356	2,788,081	-	-
Parking	2,002,110	2,600,415	-	-
Market Building	506,894	308,366	-	-
Total Business-Type Activities	<u>14,728,491</u>	<u>7,262,373</u>	<u>3,252,566</u>	<u>1,010,893</u>
Total Primary Government	<u>\$ 243,643,628</u>	<u>\$ 21,947,638</u>	<u>\$ 59,461,103</u>	<u>\$ 1,250,139</u>
Component Units:				
School Board of the City of Roanoke	<u>\$ 139,627,873</u>	<u>\$ 4,778,298</u>	<u>\$ 33,014,220</u>	<u>\$ -</u>
Roanoke Redevelopment and Housing Authority	<u>\$ 20,565,313</u>	<u>\$ 3,215,627</u>	<u>\$ 20,848,406</u>	<u>\$ -</u>

General Revenues:

Taxes:

General Property - Real Estate and Personal Property
 Local Portion of State Sales
 Business and Professional Occupational License
 Utility
 Prepared Food and Beverage
 Commonwealth Share - Personal Property
 Cigarette
 Transient Room
 Other
 State Aid Not Restricted to a Specific Program
 Payment from City of Roanoke
 Grants and Contributions Not Restricted to Specific Programs
 Interest and Investment Income
 Gain (Loss) on Sale of Assets
 Miscellaneous
 Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year (as restated)

Net Assets at End of Year

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	School Board	Roanoke Redevelopment and Housing Authority
\$ (8,422,225)	\$ -	\$ (8,422,225)	\$ -	-
1,255,779	-	1,255,779	-	-
(39,090,962)	-	(39,090,962)	-	-
(15,026,478)	-	(15,026,478)	-	-
(8,596,215)	-	(8,596,215)	-	-
(8,588,300)	-	(8,588,300)	-	-
(5,712,355)	-	(5,712,355)	-	-
(54,737,434)	-	(54,737,434)	-	-
(7,085,953)	-	(7,085,953)	-	-
(125,801)	-	(125,801)	-	-
(11,652,145)	-	(11,652,145)	-	-
(157,782,089)	-	(157,782,089)	-	-
-	(1,780,161)	(1,780,161)	-	-
-	(1,822,275)	(1,822,275)	-	-
-	598,305	598,305	-	-
-	(198,528)	(198,528)	-	-
-	(3,202,659)	(3,202,659)	-	-
\$ (157,782,089)	\$ (3,202,659)	\$ (160,984,748)	\$ -	-
\$ -	\$ -	\$ -	\$ (101,835,355)	-
\$ -	\$ -	\$ -	\$ -	3,498,720
\$ 81,071,535	\$ -	\$ 81,071,535	\$ -	-
19,663,577	-	19,663,577	-	-
11,335,221	-	11,335,221	-	-
13,857,552	-	13,857,552	-	-
7,995,551	-	7,995,551	-	-
8,325,821	-	8,325,821	-	-
1,889,419	-	1,889,419	-	-
2,250,249	-	2,250,249	-	-
8,873,379	-	8,873,379	-	-
-	-	-	47,821,217	-
-	-	-	52,676,279	-
239,988	-	239,988	79,630	3,090,910
2,387,866	92,195	2,480,061	-	196,435
-	9,896	9,896	-	(4,841,948)
6,754,063	522,955	7,277,018	30,810	502,018
(2,882,183)	2,882,183	-	-	-
\$ 161,762,038	\$ 3,507,229	\$ 165,269,267	\$ 100,607,936	(1,052,585)
\$ 3,979,949	\$ 304,570	\$ 4,284,519	\$ (1,227,419)	2,446,135
213,930,428	46,614,319	260,544,747	3,371,056	45,888,476
\$ 217,910,377	\$ 46,918,889	\$ 264,829,266	\$ 2,143,637	48,334,611

See Notes to Basic Financial Statements.

**CITY OF ROANOKE, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,932,703	\$1,546,687	\$645,617	\$13,446,816	\$ 17,571,823
Investments	9,149,325	-	-	54,385,999	63,535,324
Interest and Dividends Receivable	289,848	-	162,704	257,857	710,409
Due from Component Unit	3,106,926	-	-	-	3,106,926
Due from Other Governments	10,345,810	-	77,648	-	10,423,458
Due from Other Funds	458,859	-	-	79,075	537,934
Taxes Receivable	8,203,161	-	-	-	8,203,161
Accounts Receivable	2,550,035	-	378,678	257	2,928,970
Allowance for Uncollectible Receivables	(4,356,763)	-	-	-	(4,356,763)
Other Assets	95	-	-	-	95
Note Receivable	-	-	4,368,796	-	4,368,796
Total Assets	<u>\$31,679,999</u>	<u>\$ 1,546,687</u>	<u>\$5,633,443</u>	<u>\$68,170,004</u>	<u>\$107,030,133</u>
LIABILITIES					
Accounts Payable and Accrued Expenditures	\$ 6,657,913	\$342,574	\$315,239	\$ 3,476,710	\$ 10,792,436
Due to Other Governments	315,762	-	287,660	-	603,422
Due to Component Unit	-	-	-	5,495,750	5,495,750
Due to Other Funds	1,453,220	215,648	37,092	3,030	1,708,990
Deferred Revenue	2,202,850	-	4,993,452	-	7,196,302
Total Liabilities	<u>\$10,629,745</u>	<u>\$ 558,222</u>	<u>\$5,633,443</u>	<u>\$ 8,975,490</u>	<u>\$ 25,796,900</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 1,389,488	\$ -	\$ -	\$19,200,210	\$ 20,589,698
Unreserved:					
Designated for Debt Service	-	988,465	-	-	988,465
Designated for Future Years' Expenditures	-	-	-	39,994,304	39,994,304
Designated for Self-Insured Claims	166,730	-	-	-	166,730
Designated for Budget Stabilization Reserve	15,650,125	-	-	-	15,650,125
Undesignated	3,843,911	-	-	-	3,843,911
Total Fund Balances	<u>\$21,050,254</u>	<u>\$ 988,465</u>	<u>\$ -</u>	<u>\$59,194,514</u>	<u>\$ 81,233,233</u>
Total Liabilities and Fund Balances	<u>\$31,679,999</u>	<u>\$ 1,546,687</u>	<u>\$5,633,443</u>	<u>\$68,170,004</u>	<u>\$107,030,133</u>

CITY OF ROANOKE, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total Fund Balances - Governmental Funds \$ 81,233,233

Amounts reported for governmental activities in the Statement of Net
 Assets are different due to:

Capital assets used in governmental activities are not considered current
 financial resources and, therefore, are not reported as assets in the
 governmental funds.

Governmental capital assets, at cost	476,985,805	
Less: accumulated depreciation	<u>(151,187,291)</u>	325,798,514

Other assets used in governmental activities are not considered
 current financial resources and, therefore, are not reported
 in the governmental funds.

Bond issuance costs and deferred amounts on refunding	6,700,408	
Less: accumulated amortization	(860,440)	
Receivable from Western Virginia Water Authority	<u>33,435,000</u>	39,274,968

Property taxes receivable which are expected to be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.		2,590,900
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Long-term liabilities, including bonds payable with related accrued
 interest, are not due and payable in the current period and, therefore,
 are not reported as liabilities in the governmental funds.

Governmental bonds payable	(241,280,405)	
Capital lease liability	(4,869,741)	
Bond premium	(5,083,922)	
Accumulated amortization of bond premium	451,648	
Compensated absences	(5,352,608)	
Accrued interest payable	<u>(4,025,348)</u>	(260,160,376)

Internal service funds are used by management to charge the costs of
 certain activities to individual funds. The assets and liabilities of the
 internal service funds are included with governmental activities in the
 Statement of Net Assets.

29,173,138

Total Net Assets of Governmental Activities		<u><u>\$217,910,377</u></u>
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CITY OF ROANOKE, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES					
Local Taxes	\$ 145,738,157	\$ -	\$ -	\$ -	\$ 145,738,157
Permits, Fees and Licenses	1,275,026	-	-	-	1,275,026
Fines and Forfeitures	1,354,775	-	-	-	1,354,775
Rental Income	796,688	-	-	-	796,688
Investment Income	-	287,124	7,745	1,499,421	1,794,290
Intergovernmental	57,980,957	8,589,088	7,730,116	279,458	74,579,619
Charges for Services	11,114,029	-	-	123,747	11,237,776
Miscellaneous	593,786	-	-	226,993	820,779
Total Revenues	218,853,418	8,876,212	7,737,861	2,129,619	237,597,110
EXPENDITURES					
Current Operating:					
General Government	11,457,219	-	94,281	-	11,551,500
Judicial Administration	6,505,813	-	230,257	-	6,736,070
Public Safety	52,652,595	-	1,124,724	-	53,777,319
Public Works	22,229,895	-	-	-	22,229,895
Health and Welfare	32,365,693	-	2,389,224	-	34,754,917
Parks, Recreation and Cultural	8,364,754	-	69,915	-	8,434,669
Community Development	5,454,055	-	3,612,211	-	9,066,266
Education	52,676,279	-	-	-	52,676,279
Other	125,801	-	-	-	125,801
Debt Service:					
Principal Retirement	-	14,785,327	-	-	14,785,327
Interest and Paying Agent Charges	-	10,084,588	-	-	10,084,588
Bond Issuance Cost	-	104,034	-	-	104,034
Capital Outlays	-	-	-	40,808,400	40,808,400
Total Expenditures	191,832,104	24,973,949	7,520,612	40,808,400	265,135,065
Excess (Deficiency) of Revenues Over (Under) Expenditures	27,021,314	(16,097,737)	217,249	(38,678,781)	(27,537,955)
OTHER FINANCING SOURCES (USES)					
Proceeds of Long-Term Debt	-	-	-	37,662,856	37,662,856
Premium on Sale of Bonds	-	1,460,022	-	-	1,460,022
Transfers In	15,501,876	16,064,246	271,696	5,296,390	37,134,208
Transfers Out	(25,970,941)	(15,500,000)	(488,945)	(74,367)	(42,034,253)
Total Other Financing Sources (Uses)	(10,469,065)	2,024,268	(217,249)	42,884,879	34,222,833
Net Change in Fund Balances	16,552,249	(14,073,469)	-	4,206,098	6,684,878
Fund Balances--Beginning of Year, as restated	4,498,005	15,061,934	-	54,988,416	74,548,355
Fund Balances--End of Year	\$ 21,050,254	\$ 988,465	\$ -	\$ 59,194,514	\$ 81,233,233

CITY OF ROANOKE, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Total Net Change in Fund Balances - Governmental Funds \$ 6,684,878

Amounts reported for Governmental Activities in the Statement of Activities are different due to:

Governmental Funds report capital outlays as expenditures while governmental Activities report depreciation expense to allocate the cost of those assets over the life of the asset.

Expenditures for capital assets	34,734,158	
Donation of capital assets	5,232	
Less current year depreciation expense	<u>(8,672,845)</u>	26,066,545

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Governmental Funds.

Net change in deferred revenue related to taxes	(128,195)	
Bond principal reimbursed by Western Virginia Water Authority	<u>(2,210,000)</u>	(2,338,195)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bond proceeds	(37,662,856)	
Bond premium	(1,460,022)	
Amortization of current year bond premium	242,660	
Bond costs and deferred amounts	103,576	
Amortization of current year bond costs and deferred amounts	(429,194)	
Principal payments	<u>14,785,327</u>	(24,420,509)

Certain expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in long-term compensated absences	(129,606)	
Change in accrued interest payable	<u>(1,101,269)</u>	(1,230,875)

Internal service funds are used by management to charge the costs of certain services to individual funds. The change in net assets of the internal service funds is reported with Governmental Activities.

(781,895)

Total Change in Net Assets of Governmental Activities		<u><u>\$ 3,979,949</u></u>
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CITY OF ROANOKE, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Enterprise Funds		
	Transit Company	Civic Facilities	Parking
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 680,964	\$ 3,111,894	\$ 1,499,904
Investments	-	4,162,122	2,235,934
Due from Other Governments	578,590	-	-
Due from Other Funds	-	291,445	5,157
Due from Component Unit	-	-	-
Accounts Receivable	25,700	16,507	-
Inventory	312,221	40,708	-
Other Assets	64,591	48,831	67,362
Total Current Assets	1,662,066	7,671,507	3,808,357
Capital Assets:			
Land	603,302	1,146,559	2,359,526
Buildings and Structures	9,419,723	19,978,390	32,071,021
Equipment and Other Capital Assets	12,055,996	1,974,441	60,510
Construction in Progress	-	3,754,607	593,760
Less Accumulated Depreciation	(10,543,689)	(11,219,291)	(9,227,851)
Capital Assets, Net	11,535,332	15,634,706	25,856,966
Total Assets	\$ 13,197,398	\$ 23,306,213	\$ 29,665,323
Liabilities			
Current Liabilities:			
Accounts Payable and Accrued Expenses	221,271	678,144	26,341
Accrued Interest Payable	-	218,967	152,850
Due to Other Funds	-	82,457	-
Other Liabilities	31,352	-	-
Long-Term Liabilities Due Within One Year	-	351,113	567,082
Total Current Liabilities	252,623	1,330,681	746,273
Long-Term Liabilities:			
Compensated Absences Payable	-	94,447	-
Claims Payable	-	-	-
General Obligation Bonds Payable, Net	-	10,212,766	7,995,515
Capital Lease Liability	-	-	-
Less Current Maturities	-	(351,113)	(567,082)
Total Long-Term Liabilities	-	9,956,100	7,428,433
Total Liabilities	\$ 252,623	\$ 11,286,781	\$ 8,174,706
Net Assets			
Invested in Capital Assets, Net of Related Debt	11,535,332	10,845,271	19,358,451
Restricted	-	-	-
Unrestricted	1,409,443	1,174,161	2,132,166
Total Net Assets	\$ 12,944,775	\$ 12,019,432	\$ 21,490,617

Enterprise Funds			
Market Building	Total	Internal Service Funds	
\$ 76,919	\$ 5,369,681	\$ 1,653,542	
-	6,398,056	13,896,884	
-	578,590	13,103	
99,746	396,348	799,260	
-	-	6,952	
44,469	86,676	28,440	
-	352,929	173,992	
-	180,784	133,232	
<u>221,134</u>	<u>13,363,064</u>	<u>16,705,405</u>	
50,000	4,159,387	-	
239,220	61,708,354	-	
-	14,090,947	37,598,073	
-	4,348,367	6,484,970	
(19,174)	(31,010,005)	(22,499,136)	
<u>270,046</u>	<u>53,297,050</u>	<u>21,583,907</u>	
<u>\$ 491,180</u>	<u>\$ 66,660,114</u>	<u>\$ 38,289,312</u>	
27,115	952,871	456,039	
-	371,817	15,647	
-	82,457	162,948	
-	31,352	-	
-	918,195	3,729,080	
<u>27,115</u>	<u>2,356,692</u>	<u>4,363,714</u>	
-	94,447	292,401	
-	-	7,410,448	
-	18,208,281	-	
-	-	778,691	
-	(918,195)	(3,729,080)	
-	17,384,533	4,752,460	
<u>\$ 27,115</u>	<u>\$ 19,741,225</u>	<u>\$ 9,116,174</u>	
270,046	42,009,100	20,805,216	
-	-	276,133	
194,019	4,909,789	8,091,789	
<u>\$ 464,065</u>	<u>\$ 46,918,889</u>	<u>\$ 29,173,138</u>	

CITY OF ROANOKE, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds		
	Transit Company	Civic Facilities	Parking
<u>Operating Revenues</u>			
Charges for Services	\$ 1,565,511	\$ 2,788,081	\$ 2,600,415
Other Revenue	194,880	146,041	-
Total Operating Revenues	1,760,391	2,934,122	2,600,415
<u>Operating Expenses</u>			
Personal Services	3,730,905	1,953,178	52,610
Other Services and Charges	1,481,768	807,847	669,283
Materials and Supplies	948,528	1,287,773	384,608
Depreciation	1,447,930	465,102	572,868
Total Operating Expenses	7,609,131	4,513,900	1,679,369
Operating Income (Loss)	(5,848,740)	(1,579,778)	921,046
<u>Nonoperating Revenues (Expenses)</u>			
Net Gain (Loss) on Disposal of Assets	15,885	(5,989)	-
Operating Grants	3,252,566	-	-
Insurance Proceeds	-	182,034	-
Investment Income	11,671	37,620	42,904
Interest Expense	-	(96,456)	(322,741)
Net Nonoperating Revenues (Expenses)	3,280,122	117,209	(279,837)
Income (Loss) Before Transfers and Contributions	(2,568,618)	(1,462,569)	641,209
<u>Transfers and Contributions</u>			
Capital Contributions	1,010,893	-	-
Transfers In	1,062,000	1,529,198	31,780
Transfers Out	-	(66,219)	-
Net Transfers and Contributions	2,072,893	1,462,979	31,780
Change in Net Assets	(495,725)	410	672,989
Net Assets - Beginning of Year, as restated	13,440,500	12,019,022	20,817,628
Net Assets - End of Year	\$ 12,944,775	\$ 12,019,432	\$ 21,490,617

Enterprise Funds		Internal Service Funds
Market Building	Total	
\$ 308,366	\$ 7,262,373	\$ 21,280,161
-	340,921	-
<u>308,366</u>	<u>7,603,294</u>	<u>21,280,161</u>
-	5,736,693	4,028,833
300,349	3,259,247	12,859,397
197,772	2,818,681	3,690,094
7,702	2,493,602	4,134,325
<u>505,823</u>	<u>14,308,223</u>	<u>24,712,649</u>
<u>(197,457)</u>	<u>(6,704,929)</u>	<u>(3,432,488)</u>
-	9,896	53,777
-	3,252,566	-
-	182,034	-
-	92,195	284,061
<u>(1,071)</u>	<u>(420,268)</u>	<u>(36,636)</u>
<u>(1,071)</u>	<u>3,116,423</u>	<u>301,202</u>
<u>(198,528)</u>	<u>(3,588,506)</u>	<u>(3,131,286)</u>
-	1,010,893	331,529
325,424	2,948,402	2,062,457
-	(66,219)	(44,595)
<u>325,424</u>	<u>3,893,076</u>	<u>2,349,391</u>
<u>126,896</u>	<u>304,570</u>	<u>(781,895)</u>
<u>337,169</u>	<u>46,614,319</u>	<u>29,955,033</u>
<u>\$ 464,065</u>	<u>\$ 46,918,889</u>	<u>\$ 29,173,138</u>

CITY OF ROANOKE, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds		
	Transit Company	Civic Facilities	Parking
Cash Flow From Operating Activities			
Cash Received From Customers	\$ 1,376,504	\$ 2,586,732	\$ 2,599,284
Cash Payments to Suppliers for Goods and Services	(2,540,289)	(2,598,241)	(1,021,055)
Cash Payments to Other Funds for Interfund Services	-	(162,935)	(36,329)
Cash Payments to Employees	(3,726,707)	(1,941,435)	(52,610)
Cash Payments for Claims	-	-	-
Cash Received for Other Operating Revenues	378,344	146,041	-
Net Cash Provided by (Used for) Operating Activities	(4,512,148)	(1,969,838)	1,489,290
Cash Flow From Noncapital Financing Activities:			
Operating Grant Received	3,234,737	-	-
Transfers In	1,062,000	1,529,198	31,780
Transfers Out	-	(66,219)	-
Net Cash Provided by Noncapital Financing Activities	4,296,737	1,462,979	31,780
Cash Flow From Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(868,066)	(3,075,424)	(513,479)
Capital Grant Receipts	1,053,974	-	-
Proceeds from Sale of Capital Assets	15,885	1,691	-
Proceeds from Issuance of Bonds	-	7,895,000	2,000,000
Proceeds from Insurance	-	182,034	-
Principal Paid on Bond Maturities	-	(70,000)	(480,389)
Principal Paid on Capital Lease Obligation	-	-	-
Interest Paid on Bonds and Capital Lease	-	(97,156)	(238,248)
Capital Contributions	-	-	-
Net Cash Provided by (Used for) Capital and Related Financing Activities	201,793	4,836,145	767,884
Cash Flow From Investing Activities:			
Interest Received	11,671	344,155	38,878
Purchase of Investments	-	(4,162,122)	(2,235,934)
Cash Provided by (Used for) Investing Activities	11,671	(3,817,967)	(2,197,056)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,947)	511,319	91,898
Cash and Cash Equivalents at July 1	682,911	2,600,575	1,408,006
Cash and Cash Equivalents at June 30	\$ 680,964	\$ 3,111,894	\$ 1,499,904
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ (5,848,740)	\$ (1,579,778)	\$ 921,046
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	1,447,930	465,102	572,868
Changes in Assets and Liabilities:			
Increase in Due From Other Governments	-	-	-
(Increase) Decrease in Due From Other Funds	-	(289,930)	(1,131)
Increase in Due From Component Unit	-	-	-
(Increase) Decrease in Accounts Receivable	(5,543)	88,581	-
Increase in Inventory	(117,255)	(10,311)	-
(Increase) Decrease in Other Assets	(6,540)	(37,446)	(3,994)
Increase (Decrease) in Accounts Payable and Accrued Expenses	388	(601,433)	9,072
Decrease in Due to Other Governments	-	-	(5,687)
Decrease in Due to Other Funds	-	(8,934)	(2,884)
Increase in Other Liabilities	17,612	-	-
Increase in Compensated Absences Payable	-	4,311	-
Decrease in Claims Payable	-	-	-
Total Adjustments	1,336,592	(390,060)	568,244
Net Cash Provided by (Used for) Operating Activities	\$ (4,512,148)	\$ (1,969,838)	\$ 1,489,290

Noncash Capital and Financing Activities:

Civic Facilities Fund noncash activities in fiscal year 2005 consisted of fixed asset acquisitions of \$81,003 recorded as accounts payable at June 30, 2005.

Parking Fund noncash activities in fiscal year 2005 consisted of fixed asset acquisitions of \$17,135 recorded as accounts payable at June 30, 2005.

Internal Service Funds noncash activities in fiscal year 2005 consisted of fixed asset acquisitions of \$99,925 recorded as accounts payable at June 30, 2005.

Enterprise Funds		
Market Building	Total	Internal Service Funds
\$ 165,151	\$ 6,727,671	\$ 22,599,459
(508,554)	(6,668,139)	(5,483,447)
-	(199,264)	(592,393)
-	(5,720,752)	(3,984,832)
-	-	(11,723,717)
-	524,385	-
(343,403)	(5,336,099)	815,070
-	3,234,737	-
325,424	2,948,402	2,062,457
-	(66,219)	(44,595)
325,424	6,116,920	2,017,862
-	(4,456,969)	(3,735,999)
-	1,053,974	-
-	17,576	75,967
-	9,895,000	-
-	182,034	-
-	(550,389)	-
-	-	(510,384)
(1,071)	(336,475)	(47,211)
-	-	331,529
(1,071)	5,804,751	(3,886,098)
77	354,761	262,227
-	(6,398,056)	(13,896,884)
77	(6,003,275)	(13,634,657)
(18,973)	582,297	(14,687,823)
95,892	4,787,384	16,341,365
\$ 76,919	\$ 5,369,681	\$ 1,653,542
\$ (197,457)	\$ (6,704,929)	\$ (3,432,488)
7,702	2,493,602	4,134,325
-	-	(11,923)
(98,746)	(389,807)	1,358,521
-	-	(1,427)
(44,469)	38,569	(25,873)
-	(127,566)	(2,028)
-	(47,980)	23,233
(10,433)	(602,406)	(690,172)
-	(5,687)	-
-	(11,818)	(16,019)
-	17,612	-
-	4,311	25,419
-	-	(546,498)
(145,946)	1,368,830	4,247,558
\$ (343,403)	\$ (5,336,099)	\$ 815,070

CITY OF ROANOKE, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 824,891	\$ 639,620
Receivables:		
Employer Contributions (Includes Due From Other Funds of \$220,853)	271,048	-
Accrued Interest	-	35,102
Investment Income	132,315	-
Total Receivables	<u>403,363</u>	<u>35,102</u>
Investments Held by Trustee, at Fair Value:		
Cash Equivalents	4,943,729	-
Cash Collateral on Loaned Securities	537,935	-
U. S. Government Securities	6,279,222	-
Domestic Corporate Bonds	4,625,810	-
Convertible Bond Mutual Funds	15,672,821	-
Common Stocks	10,671,399	-
Domestic Mutual Funds	236,462,742	-
International Mutual Funds	20,701,120	-
Real Estate Mutual Funds	18,257,920	-
U. S. Government Agency Bonds	-	3,466,099
Total Investments	<u>318,152,698</u>	<u>3,466,099</u>
Other Assets	7,001	-
Total Assets	<u>\$ 319,387,953</u>	<u>\$ 4,140,821</u>
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 174,651	\$ -
Liability for Collateral on Loaned Securities	537,935	-
Due to Other Governments	-	4,140,821
Total Liabilities	<u>\$ 712,586</u>	<u>\$ 4,140,821</u>
NET ASSETS		
Held in Trust for Pension Benefits	<u>\$ 318,675,367</u>	<u>\$ -</u>

CITY OF ROANOKE, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Pension Trust Fund
<u>Additions</u>	
Contributions from Employer	\$ 6,813,820
Investment Income	
Net Appreciation in Fair Value of Investments	22,910,494
Interest and Dividends	3,130,444
Other	9,254
Total Investment Income	26,050,192
Less Investment Expenses	(561,323)
Net Investment Income	25,488,869
Securities Lending Income	
Securities Lending Income	34,739
Less Securities Lending Expenses	(15,962)
Net Securities Lending Income	18,777
Total Additions	32,321,466
<u>Deductions</u>	
Benefit Payments	20,259,828
Administrative Expenses	311,624
Total Deductions	20,571,452
Net Increase in Plan Net Assets	11,750,014
Net Assets Held in Trust for Pension	
Benefits - July 1	306,925,353
Net Assets Held in Trust for Pension	
Benefits - June 30	\$ 318,675,367

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**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies:

The accounting policies of the City of Roanoke, Virginia, (the City) conform to generally accepted accounting principles as applicable to governments.

A. Reporting Entity

The City of Roanoke is a municipal corporation organized under the laws of the Commonwealth of Virginia and governed by seven elected City Council members. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, for which the City is considered to be financially accountable. A blended component unit, although a legally separate entity, is, in substance, part of the municipality's operations, so data from this unit is combined with data of the primary government. Two discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that it is legally separate from the government.

Blended Component Unit

The Greater Roanoke Transit Company (Transit Company) is a public service bus company organized to provide mass transportation services to the Roanoke Valley. The Transit Company is reported as a blended component unit because it is owned by the City with City Council acting as its Board of Directors. The Transit Company's operations are reported as an Enterprise Fund, a Proprietary Fund Type.

Complete basic financial statements for this blended component unit may be obtained by writing to the Greater Roanoke Transit Company, P.O. Box 13247, Roanoke, Virginia 24032.

Discretely Presented Component Units

The School Board of the City of Roanoke (School Board) is a legally separate entity which operates twenty-one elementary schools, six middle schools, and three high schools for students residing in the City. School Board members are appointed by City Council. City Council also provides fiscal guidance because it levies taxes for the School Board's operations and issues debt for its capital projects. Based on these facts, and to comply with guidance from the Virginia Auditor of Public Accounts, the City reports the School Board as a discretely presented component unit. Certain footnote disclosures are included in the City's Comprehensive Annual Financial Report for component unit transactions which are material. Additional disclosures are available in the separately published School Board Component Unit Comprehensive Annual Financial Report.

Complete basic financial statements for this discretely presented component unit may be obtained by writing to the School Board of the City of Roanoke, P.O. Box 13145, Roanoke, Virginia 24031.

The Roanoke Redevelopment and Housing Authority (RRHA) is a political subdivision of the State created to provide low income and subsidized housing. Commissioners of RRHA are appointed by City Council. RRHA is financially independent of the City and

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

has administrative control of its operations, but its overall housing plans require the approval of City Council. The City provides a financial benefit through federal pass-through grant funds awarded to RRHA on a contractual basis to implement certain grant programs. RRHA also directly receives other federal and state subsidies and rents for operating its housing programs. Additionally, in fiscal year 2004, the City secured a note payable on behalf of RRHA for the purchase of Roanoke City Mills with an irrevocable letter of credit in the amount of \$5,495,750. The City appoints the RRHA board and, with the letter of credit, became legally obligated for a portion of their financial burden; therefore, RRHA became a component unit of the City. Accordingly, this Comprehensive Annual Financial Report includes balances for the RRHA from its most recent financial statements for the year ended September 30, 2004.

Complete basic financial statements for this proprietary component unit may be obtained by writing to the Roanoke Redevelopment and Housing Authority, 2624 Salem Turnpike NW, Roanoke, Virginia 24017.

B. Financial Statement Presentation

The City's financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. GASB Statement No. 34 was developed to make annual reports easier to understand and more useful to people who use governmental financial information to make decisions. GASB Statement No. 34, as amended, includes:

Management's Discussion and Analysis (MD&A) – MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities in a narrative format. An analysis of the government's overall financial position and results of operations is included to assist users in assessing whether financial position has improved or deteriorated as a result of the year's activities.

Government-Wide Financial Statements – Financial statements are prepared using the economic resources measurement focus and full accrual accounting for all of the government's activities. These statements include all assets, liabilities, revenues and expenses of the primary government and its component units, excluding fiduciary activities.

The effect of interfund activity has been eliminated from these statements. Excess revenues or expenses of the internal service funds are allocated to the appropriate functional activity. The City does not allocate indirect expenses. The government-wide statements segregate governmental activities, which are normally supported by taxes and intergovernmental revenues, and business-type activities, which rely on user fees and charges for support. The School Board of the City of Roanoke and the Roanoke Redevelopment and Housing Authority, which are a legally separate, discretely presented component units, are also segregated.

Statement of Net Assets – presents both governmental and business-type activities on the full accrual, economic resource basis, which incorporates long-term assets and receivables, as well as long-term debt and obligations.

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Statement of Activities – presents the net cost of each individual function. Program revenues are presented as a reduction of the total cost of providing program services. Program revenues include charges for services, operating grants and contributions and capital grants that are directly associated with a specific function. Taxes and other revenue sources not reported as program revenue are included as general revenue.

Fund Financial Statements – These statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. The emphasis is on major governmental and enterprise funds. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances or net assets, revenues, and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the basic financial statements in this report into three broad fund categories as follows:

Governmental Funds account for expendable financial resources, other than proprietary fund types. Governmental fund types use the flow of current financial resources measurement focus. The major governmental funds are:

General Fund – Accounts for all revenues and expenditures which are not accounted for in other funds. The General Fund finances the regular day-to-day operations of the City.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and fiscal charges not being financed by proprietary funds.

Special Revenue Fund – Accounts for the proceeds of specific revenue sources (other than expendable trusts, permanent funds, or funds for major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Fund provides accounting for certain federal and state grants awarded to the City.

Capital Projects Fund – Accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. The proprietary fund measurement focus is on the flow of economic resources. Operating revenues include charges for services and other revenue. Operating expenses include personal services, as well as other services and charges, materials and supplies and depreciation. All revenues and expenses, excluding capital contributions and transfers, not meeting these definitions are reported as non-operating revenues and expenses. The proprietary fund types are:

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Enterprise Funds – Account for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services. All funds included in this category are major funds and are as follows:

Transit Company – Provides bus service to the City and surrounding areas.

Civic Facilities Fund – Accounts for the operation of the municipal civic center and victory stadium.

Parking Fund – Accounts for the operation of seven parking garages and several parking lots.

Market Building Fund – Accounts for the operation of the Market Building which houses several retail merchants and restaurants.

Internal Service Funds – Account for the financing of goods or services provided by one department primarily or solely to other departments within the City government on a cost-reimbursement basis. Funds included in this category are:

Department of Technology Fund – provides implementation and maintenance of information technology and communication services and provides workstation support.

Fleet Management Fund – Owns and maintains City vehicle fleet and related supplies.

Risk Management Fund – Finances property, workers' compensation, employee medical, auto, and general liability insurance coverage.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has selected one of the two options available for proprietary fund reporting. The City applies all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, other governmental units, or other funds. The fiduciary funds are:

Pension Trust Fund – Accounts for the operations of the City's Pension Fund. It is accounted for in the same manner as a proprietary fund type.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Measurement focus is upon determination of the change in net assets and financial position.

Agency Fund – Account for assets held for, and due to the Hotel Roanoke Conference Center Commission. This fund is custodial in nature and does not involve measurement of results of operations.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental activities in the government-wide statements are presented using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability has been incurred, regardless of the timing of related cash flows.

Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. General fund tax revenues are considered measurable when they have been levied. To be considered available and thus susceptible to accrual, the taxes must be collected with the City's period of availability of 60 days. Uncollected taxes at the end of this period are reported as deferred revenues. Interest income and intergovernmental receivables (state and federal grants to the extent of allowable expenditures) are considered susceptible to accrual. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific situation.

As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements, a reconciliation between the government-wide and fund financial statements is necessary. Exhibit D presents a reconciliation of the net assets as reported on the Statement of Net Assets (Exhibit A) to total governmental fund balance as reported on the Balance Sheet - Governmental Funds (Exhibit C). Exhibit F presents a reconciliation of change in net assets as reported on the Statement of Activities (Exhibit B) and the total changes in fund balance as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Exhibit E).

D. Accounting Restatement

On July 1, 2004, the City and the County of Roanoke (County) combined its water and water pollution control functions to form the Western Virginia Water Authority

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(WVWA). The WVWA was created pursuant to the Virginia Water and Waste Authority Act, Title 15.2, Chapter 51, to be responsible for the supply, treatment, distributions, and transmission of water and the collection and treatment of wastewater. This full service authority will serve both the citizens of the City and County, ensuring the most reliable means of providing water and wastewater treatment at the lowest cost for customers. The Water Authority Board consists of three City appointees, three County appointees, and one additional member selected by the other six.

Pursuant to the terms of an Operating Agreement dated as of June 30, 2004, among the City, County and WVWA, the City and the County transferred all of the assets of their respective drinking water and wastewater utilities to the WVWA.

Also pursuant to the Operating Agreement, and pursuant to the terms of an Assumption Agreement dated as of July 1, 2004, among the City, County, WVWA and the Virginia Resources Authority, the WVWA assumed certain liabilities of the City and the County representing obligations secured by revenues related to the respective drinking water and wastewater utilities, and agreed to pay to the City and the County amounts equal to debt service due on the localities' liabilities not legally assumed by the WVWA. The WVWA assumed the City's loan from the Virginia Resources Authority. Approximately \$1.7 million in Series 2003B Sewer Revenue Bonds issued by the Virginia Water Facilities Revolving Fund as administered by the Virginia Resource Authority were assumed by the WVWA on July 1, 2004. The City's obligations not assumed by the WVWA include the City's general obligation debt issued by the City for its Water and Water Pollution Control Enterprise functions. The WVWA has agreed to pay to the City amounts equal to debt service on this general obligation debt. The WVWA has covenanted under the Operating Agreement to fix, charge and collect rates, fees and charges sufficient to pay expenses of the WVWA and pay debt service on assumed obligations and the City's affected general obligations. At inception, the City had \$35.6 million in outstanding general obligation debt which will contractually be repaid by the WVWA over the remaining twenty-one year amortization of the bonds.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

As a result of the formation of the WVWA on July 1, 2004, the City has restated fiscal year 2005 beginning net assets for both the governmental and business-type activities. The restatement amounts, which are considered a restatement due to a change in reporting entity, are detailed as follows:

	Governmental Activities	Business-Type Activities
Total net assets as of June 30, 2004, as originally reported	\$ 209,422,398	\$ 178,487,447
Adjustments due to change in reporting entity:		
Cash and Cash Equivalents	3,850,000	-
Capital Assets	658,030	-
Long-term debt	(35,645,000)	-
Due from other Governments	35,645,000	-
Total net assets (Water Fund) transferred to the WVWA	-	(38,057,785)
Total net assets (Water Pollution Control Fund) transferred to the WVWA	-	(93,815,343)
Total net assets as of June 30, 2004, as restated, for governmental activities and business-type activities, respectively	<u>\$ 213,930,428</u>	<u>\$ 46,614,319</u>

Governmental Activities

	Original Balance June 30, 2004	Restatement	Restated Balance June 30, 2004
Cash and Cash Equivalents	52,806,642	3,850,000	56,656,642
Capital Assets	220,177,370	658,030	220,835,400
Due from other Governments	9,225,722	35,645,000	44,870,722
Other Assets	144,794,110	-	144,794,110
Long-term Debt	200,015,397	35,645,000	235,660,397
Other Liabilities	17,566,049	-	17,566,049
Total	<u>\$ 209,422,398</u>	<u>\$ 4,508,030</u>	<u>\$ 213,930,428</u>

Business-Type Activities

	Original Balance June 30, 2004	Restatement	Restated Balance June 30, 2004
Transit Company	\$ 13,440,500	\$ -	\$ 13,440,500
Water	38,057,785	(38,057,785)	-
Water Pollution Control	93,815,343	(93,815,343)	-
Civic Facilities	12,019,022	-	12,019,022
Parking	20,817,628	-	20,817,628
Market Building	337,169	-	337,169
Total	<u>\$ 178,487,447</u>	<u>\$ (131,873,128)</u>	<u>\$ 46,614,319</u>

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

constitute expenditures or liabilities. Encumbrances are reported as expenditures using the budgetary basis of accounting. Unspent appropriations lapse at year-end. These encumbrances are subject to reappropriation by City Council in the succeeding fiscal year.

F. Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Short-term investments may consist of certificates of deposit, repurchase agreements, commercial paper, and investments in the Local Government Investment Pool and the Commonwealth Cash Reserve Fund. Cash balances, other than Transit Company balances and a portion of the Pension Trust Fund balances, are deposited in a pooled account, which in turn, purchases short-term investments. Interest income is allocated to the participating funds based on each fund's average daily cash balance. Cash and cash equivalents are recorded at cost which approximates market value.

Investments are recorded at fair value. Investments consist of government securities, commercial paper, and corporate bonds. Investments of the Pension Trust Fund consist of overnight investments in bank common trust funds, government securities, corporate bonds, stocks, and mutual funds.

G. Interfund Receivables and Payables

Outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide statements as internal balances. Outstanding balances between the City and its component unit are reported as due to/from component unit or due to/from primary government.

H. Allowance for Uncollectible Taxes and Accounts Receivable

The City calculates its allowance for uncollectible receivables based on historical collection data and specific account analysis. At June 30, 2005, the allowance for General Fund uncollectible taxes and accounts receivable was \$4,356,763 or 41% of the outstanding balance of taxes receivable and accounts receivable.

I. Property Taxes

Property taxes are assessed annually as of January 1. Real estate tax is payable in two equal installments, each due on or before October 5 and April 5. On April 6, real property taxes become an enforceable lien against the property. Personal property tax is due on or before May 31 during the year of assessment. The City bills and collects taxes and recognizes revenue upon levy for government-wide purposes. For the fund financial statements, the City recognizes revenue to the extent that it results in current receivables.

The annual assessment for real estate is based on 100% of the assessed fair market value. The tax rates are established annually, without limitation by City Council.

The tax rate for real estate was \$1.21 per \$100 of assessed value for the year. The personal property tax rate was \$3.45 per \$100 of assessed value for the year. In 1998, the

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Commonwealth enacted the Personal Property Tax Relief Act whereby the Commonwealth funds localities for a portion of personal property taxes billed to property owners. The Commonwealth share of the tax was 70% for fiscal year 2005. A penalty of 10% of unpaid real estate and personal property tax is due for late payment. Interest on unpaid taxes is 10% in the first year. Thereafter, the rate is calculated at the Internal Revenue Service (IRS) rate. At June 30, 2005, the IRS rate was 6%.

J. Inventory

Inventory for proprietary funds is valued at cost, determined using the moving weighted average method. Inventory consists of materials and supplies held for consumption and is adjusted to actual based on an annual physical count. The cost is recorded as an expense when individual items of inventory are used.

K. Pension Trust Fund

The City's policy is to fully fund pension costs, which include both normal costs and amortization of any unfunded accrued liability. Pension Trust Fund assets and investments are recorded at fair value. The fair value is based on quotations obtained from national security exchanges. Security transactions are recognized on the trade date which is the date the order to buy or sell is originated. Securities lending fees are included as a component of investment expenses.

L. Capital Assets

Capital assets acquired or constructed by the City with a value in excess of \$5,000 are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets belonging to proprietary funds are also reported in the applicable fund financial statements. Capital assets are recorded at historical cost or estimated historical cost. Gifts or contributions are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the estimated useful life of each capital asset. No depreciation expense is recorded for land, construction-in-progress, or items designated as historical treasures. The estimated useful lives for capital assets are as follows:

Land Improvements	15-40 years
Buildings and Structures	5-55 years
Equipment	2-20 years
Infrastructure	15-55 years

In accordance with GASB Statement No. 34, a portion of the City's infrastructure was capitalized, retroactively, upon adoption of the standard in fiscal year 2002 and in the subsequent fiscal year. The City will review the remaining non-capitalized infrastructure network of sidewalks prior to the 2006 capitalization deadline.

Pursuant to the Roanoke City Charter, all real estate, including buildings and improvements thereon, financed by debt issued by the City for the purpose of public education is the property of the City of Roanoke.

Interest is capitalized on proprietary fund capital assets financed through the issuance of long-term debt. The amount of interest capitalized is calculated by offsetting interest

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capital asset additions in the current fiscal year included total capitalized net interest of \$125,314 comprised of \$98,889 in the Civic Facilities Fund and \$26,425 in the Parking Fund.

M. Compensated Absences Payable

It is the City's policy to permit employees to accumulate earned but unused compensated absences. For government-wide reporting, a liability is recorded for compensated absences when services are rendered and employees have earned the right to receive compensation for such services.

Liabilities for compensated absences are not liquidated until leave is actually taken by employees or leave balances are paid upon termination. Accordingly, in the fund financial statements for governmental funds, no expenditure is reported for compensated absences until they are paid. Current and non-current portions of compensated absences totaling \$5,352,607 are recorded for governmental activities in the government-wide statements and represent a reconciling item between the government-wide and fund presentations.

Compensated absences earned by employees and charged to proprietary funds are expensed and accrued as a liability of the appropriate fund when incurred. At June 30, 2005, the liabilities for compensated absences of the enterprise and internal service funds were \$94,447 and \$292,401, respectively.

(2) Deposits and Investments

Governmental Funds

The City maintains a cash and investment pool that is available for use by all funds, including fiduciary funds and the School Board Component Unit. Each fund's portion of this pool is presented in the basic financial statements as "Cash and cash equivalents". The Greater Roanoke Transit Company (Transit Company), a blended component unit, maintains separate cash and investment accounts. Its investments consist of cash and overnight repurchase agreements collateralized by government securities. The Transit Company investments are presented in conjunction with City investments. The City acts as the fiscal agent for the Hotel Roanoke Conference Center Commission (HRCCC) and holds total investments of \$3,466,099 on its behalf. Investments and related disclosures for the City of Roanoke Pension Plan, the Hotel Roanoke Conference Center Commission, and the Roanoke Redevelopment and Housing Authority component unit are presented separately.

Investment Policy The City, School Board Component Unit, and Transit Company adhere to a City Council adopted investment policy (Policy). The Policy, in accordance with the Code of Virginia and other applicable law, including regulations, articulates the City's investment objectives and authorized investments and serves as a guide for asset allocation development, cash equivalent development, fixed income development and investment performance measurement. Preservation of principal is the City's primary responsibility in making investment decisions and these decisions are made under the assumption that all investments will be held to maturity unless a specific case warrants otherwise.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

The City's policy regarding certain types of investments is as follows:

Commercial Paper: Shall be rated by the Moody's Investors Service, Inc. (Moody's) of prime 1 and by Standard & Poor's, Inc. (S & P), within it rating of A-1.

Corporate and Municipal Bonds: High quality corporate notes with a rating of at least Aa by Moody's and a rating of at least AA by S&P.

Banker's Acceptances: Must have a rating of B/C or better in the Keefe, Bruyette & Woods, Inc. ratings.

Savings Accounts, Certificate of Deposits, Demand and Time Deposits: Shall not exceed the maximum limit of FDIC insurance, other Federal insurance programs, or secured as provided by the Virginia Security for Public Deposits Act.

Obligations of the Commonwealth: Those unconditionally guaranteed as to payment by the Commonwealth of Virginia.

Obligations of the United States, etc.: Those unconditionally guaranteed as to payment by the United States.

Repurchase Agreements: Collateralized by United States Treasury agency securities, shall at all times, be no less than 110% of the value of term and open repurchase agreements and 102% of the value of overnight repurchase agreements.

Money Market Funds: One or more open-end investment funds, provided that the funds are registered under the Securities Act of the Commonwealth of Virginia or the federal investment of such funds is restricted in investments otherwise permitted by law as set forth in Chapter 18 of Title 2.1, Code of Virginia (1950), as amended.

Cash and Investments as of June 30, 2005 consisted of the following:

	Total Primary Government	School Board Component Unit
Cash and Cash Equivalent	\$ 1,533,153	\$ 53,388
Money Market Accounts	2,400,000	-
Repurchase Agreements	2,715,783	2,848,298
Mutual Funds	16,346,358	-
Comercial Paper	8,882,582	-
Domestic Corporate Fixed-Income Securities	1,354,561	-
Federal Agency Discount Notes	51,307,112	-
Federal Agency Bonds/Notes	22,286,019	-
Virginia LGIP	1,599,742	87,216
	<u>108,425,310</u>	<u>2,988,902</u>

Credit risk, custodial credit risk, concentration of credit risk, and interest rate risk are addressed in the following paragraphs.

Credit Risk. State law (Code of Virginia, Chapter 3, Title 26) limits local governments and other public bodies to investing in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes; bankers' acceptances, repurchase agreements, and the State and Local Government Investment Pool (LGIP). The State Treasurer's Office of the Commonwealth of Virginia has regulatory

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

oversight over the LGIP. The City's fair value of investment in the LGIP is the same as the pooled value of its shares. It is the City's policy to limit its investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs).

As of June 30, 2005, the percentage of the City's and School Board's investments, with their respective credit ratings, was as follows:

Investment Type	City	School	Credit Rating
Repurchase Agreements	2.6%	97.0%	NA
Mutual Funds	15.7%	0.0%	AAAm
Commercial Paper	8.5%	0.0%	P-1
Domestic Corporate Fixed-Income Securities	1.3%	0.0%	Aa1, Aa3
Federal Agency Discount Note	49.1%	0.0%	Aaa
Federal Agency Bond/Note	21.3%	0.0%	Aaa
Virginia LGIP	1.5%	3.0%	AAA

Custodial Credit Risk - Investments. For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments in U.S. Agencies are held by the counterparty, not in the name of the City. The City's investment policy requires all Purchase securities, Money Market instruments and Certificate of Deposits with maturity dates less than thirty (30) days to be held by the Bank or Securities Dealer through which the City is the custodian. Securities with maturity dates exceeding thirty days are electronically transferred and held by a third party.

Custodial Credit Risk - Deposits. In the case of a deposit, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The carrying value of the City's deposits was \$3,989,459, including School Board component unit of \$53,388. The City's bank balance of deposits was \$4,170,850, including School Board component unit of \$56,252. The City's investment policy requires all deposits to be federally secured or held in accordance with the Virginia Security for Public Deposits Act. In agreement with the policy, the entire balance was covered by federal depository insurance or collateralized in accordance with Virginia Security for Public Deposits Act.

Investments are considered to be exposed to custodial credit risk if they are uninsured and unregistered with the securities held by the counterparty or by its trust department or agent, but not in the City's name. The School Board component unit does not hold any investments, which are exposed to custodial credit risk. As of June 30, 2005, the City's investments considered to be exposed to custodial credit risk consisted of the following:

Commercial Paper	\$ 8,882,584
Federal Agency Discount Notes	27,376,035
Federal Agency Bond/Notes	10,701,732
Corporate Bonds	1,354,561

Concentration of Credit Risk. The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No single issue shall constitute more than 5

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

percent of the total value of the portfolio, except United States Treasury and Federal Agency obligations. Not more than thirty-five percent of the total funds available for investment may be invested in commercial paper, and no single industry group, as defined by Standard & Poor's, shall constitute more than 20 percent of the bond portfolio.

As of June 30, 2005, the portions of the City's portfolio, excluding the Virginia LGIP, that exceed 5% of the total portfolio are as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Commonwealth Cash Reserve Fund	15.6%
Federal Home Loan Mortgage Corporation	31.9%
Federal National Mortgage Association	31.8%
Federal Home Loan Bank	6.7%

As of June 30, 2005, 98.4% of the School Board's portfolio was invested in Repurchase Agreements.

Interest Rate Risk. The City's investment policy limits maturities to a maximum of five years as a means of managing its exposure to fair value losses arising from increasing interest rates. However, as a means of limiting its exposure to an even higher degree, the City's investments are highly concentrated in investments of less than one year, and the City holds no investments with a maturity date of greater than three years.

As of June 30, 2005, the City had the following investments and maturities:

	<u>Investment Maturity</u>		
	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-3 years</u>
Repurchase Agreements	\$ 2,715,783	\$ 2,715,783	\$ -
Mutual Funds	17,096,095	17,096,095	-
Commercial Paper	8,882,584	8,882,584	-
Domestic Corporate Fixed-Income Securities	1,354,561	854,326	500,235
Federal Agency Discount Notes	51,307,111	51,307,111	-
Federal Agency Bonds/Notes	22,286,019	9,857,469	12,428,550
Virginia LGIP	850,005	850,005	-
TOTAL	\$ 104,492,158	\$ 91,563,373	\$ 12,928,785

As of June 30, 2005, the School Board had the following investments and maturities:

	<u>Investment Maturity</u>	
	<u>Fair Value</u>	<u>Less than 1 year</u>
Repurchase Agreements	\$ 2,848,298	\$ 2,848,298
Virginia LGIP	87,216	87,216
TOTAL	\$ 2,935,514	\$ 2,935,514

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Fiduciary Funds

Pension Trust Fund

Investment Policy. The Board of Trustees of the City of Roanoke Pension Plan has adopted a Statement of Investment Policy Guidelines and Objectives. The Policy articulates the Plan's investment objectives and risk tolerance and serves as a guide for asset allocation development, investment manager and fund selection, investment performance monitoring and evaluation. The Policy addresses credit risk, concentration risk, and foreign currency risk as outlined in the following paragraphs.

Investment as of June 30, 2005 consisted of the following:

Cash Equivalents	\$ 4,943,729
Cash Collateral on Loaned Securities	537,935
U.S. Government Securities	6,279,222
Corporate Bonds	4,625,810
Convertible Bond Mutual Funds	15,672,821
Common Stocks	10,671,399
Domestic Mutual Funds	236,462,742
International Mutual Funds	20,701,120
Real Estate Fund	18,257,920
Total Investments	<u>\$ 318,152,698</u>

Credit Risk. The Plan's investment policy limits investments in fixed income securities to issues which are rated at least BBB or Baa by either Moody's or Standard and Poor's. Purchases of non-U.S. government securities are restricted to issues of at \$50 million or greater. As of June 30, 2005, the Plan's fixed income investments consisted of the following:

<u>Investment Type</u>	<u>Standard & Poors</u>		<u>Moody's</u>	
	<u>Market Value</u>	<u>Rating</u>	<u>Market Value</u>	<u>Rating</u>
Corporate Bonds	\$ 1,579,226	AAA	\$ 1,318,565	AAA
Federal National Mortgage Association	4,040,607	AAA	4,040,607	AAA
Federal Home Loan Mortgage Corporation	554,889	AAA	554,889	AAA
Bond Mutual Fund	16,519,506	AAA	16,519,506	AAA
Bond Mutual Fund	40,537,135	AA	40,537,135	Aa2
Corporate Bonds	334,864	A+	252,601	AA3
Corporate Bonds	694,283	A	336,756	A1
Corporate Bonds	501,187	A-	370,278	A2
Corporate Bonds	399,591	BBB	193,080	A3
Corporate Bonds	511,668	BBB+	624,591	BAA1
Corporate Bonds	467,597	BBB-	666,139	BAA2
Corporate Bonds	33,486	BB+	528,867	BAA3
Corporate Bonds	103,908	NR	334,933	NR
Total	<u>\$ 66,277,947</u>		<u>\$ 66,277,947</u>	

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

All corporate bonds are rated with at least BBB or Baa by either Moody's or Standard and Poor's, respectively. Non-rated (NR) investments reflect issues that were not rated by the particular agency; however, these issues were rated by the other agency. As such, these investments do not represent a violation of the Plan's investment policy.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan's investment policy does not specifically address custodial credit risk. The City maintains a cash and investment pool, which the Plan participates in. On June 30, 2005, the carrying amount of the Plan's deposits was \$5,768,620 (bank balance was \$5,769,110). Of the bank balance at June 30, 2005, \$825,381 was covered by Federal depository insurance or collateralized pursuant to agreements with all participating financial institutions to pledge assets on a pooled basis to secure public deposits according to the Virginia Security for Public Deposits Act Regulations of the Code of Virginia.

Such collateralization qualifies as state depository insurance. Accordingly, the bank balance of \$397,629 is considered to be insured. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. The remaining bank balance of \$4,943,729 is uninsured and uncollateralized. The uninsured and uncollateralized deposits are held by State Street Bank & Trust Company.

Custodial Credit Risk - Investments. The Plan has nine types of investments as of June 30, 2005: cash equivalents; cash collateral received on loaned securities; U.S. government securities; corporate bonds; convertible bond mutual funds; common stocks; domestic, international, and real estate mutual funds. Investments in external investment pools and in open-end mutual funds are not considered to be exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Investments are considered to be exposed to custodial credit risk if they are uninsured and unregistered with the securities held by the counterparty or by its trust department or agent but not in the Plan's name. The Plan's investment policy does not specifically address custodial credit risk. As of June 30, 2005, the Plan's investments considered to be exposed to custodial credit risk consisted of the following:

<u>Investment Type</u>	<u>Market Value</u>
U.S. Treasury Securities	\$ 1,623,251
U.S. Agency Securities	4,655,971
Corporate Bonds	4,625,810
Common Stocks	10,671,399
Total	<u>\$21,576,431</u>

State Street Bank & Trust Company has a blanket insurance policy to secure Trust Funds for every account they hold and also pledges to the Federal Reserve Bank to cover funds on deposit with their bank. State Street Boston Corporation, the parent company, also carries a corporate blanket insurance policy. Further insurance carried by the depositories includes coverage against losses occurring on the premises or during transit.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Concentration of Credit Risk. The Plan's investment policy prohibits the investment of more than 5% of plan assets in either fixed income or equity securities of any single issuer based on cost. Securities of the U.S. government and investment company shares (mutual funds) are exempted from this limitation. As of June 30, 2005, the Plan did not own securities of a single organization, other than positions in mutual funds, representing five percent or more of the Plan's net assets.

Interest Rate Risk. The Plan's investment policy does not address investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy defines the investment objectives for both the passive and actively managed segments of the fixed income portfolio. The objective of the passive segment is to replicate the return of the Legman Aggregate Bond Index thus providing broad diversification that would be impractical to achieve in an actively managed portfolio. The objective of the actively managed fixed income portfolio is to outperform the Lehman Aggregate Bond Index over a moving 3 – 5 year range. The market value of the Plan's fixed income portfolio consisted of the following investment and maturities as of June 30, 2005:

<u>Investment Type</u>	Fair	<u>Investment Maturities (In Years)</u>				
	Value	1-5	5-10	10-15	15-20	More than 20
U.S. Treasuries	\$ 1,623,251	\$ 123,869	\$ -	\$ -	\$ -	\$ 1,499,382
Government National Mortgage Association	60,475	60,475	-	-	-	-
Federal Home Loan Mortgage Corporation	554,889	-	287,065	-	-	267,824
Federal National Mortgage Association	4,040,607	88,411	5,066	1,908,183	-	2,038,947
Corporate Bonds	4,625,810	306,712	2,121,104	15,683	111,652	2,070,659
Bond Mutual Funds	57,056,641	-	57,056,641	-	-	-
Total	<u>\$67,961,673</u>	<u>\$ 579,467</u>	<u>\$59,469,876</u>	<u>\$ 1,923,866</u>	<u>\$ 111,652</u>	<u>\$ 5,876,812</u>

Foreign Currency Risk. The Plan's investment policy prohibits investment in securities that are not denominated in U.S. dollars and/or that are traded solely on exchanges outside the U.S., with the exception of international commingled funds. The Plan had no investments that were not denominated in U.S. dollars or that were traded solely on exchanges outside the U.S. as of June 30, 2005.

Securities Lending Arrangements. The Plan's Board of Trustees approved a Securities Lending Authorization Agreement allowing State Street Bank & Trust Company (Custodian) to lend the Plan's available securities to broker-dealers and banks pursuant to a form of loan agreement. All of the Plan's securities held by the Custodian are available for securities lending, except those securities which the Plan specifically identifies in notices to the Custodian as not being available. During the fiscal year, the Plan did not exclude any securities from securities lending.

The Custodian lends the securities and in exchange the borrowers are required to deliver collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt of foreign nations and irrevocable bank letters of credit. The Custodian does not have the ability to pledge or sell collateral securities delivered, absent a borrower default. Borrowers are required to deliver collateral for each loan in amounts equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

The Plan did not impose any restrictions during the fiscal year on the amount of loans the Custodian made on its behalf. The terms of the Authorization Agreement require the Custodian to indemnify the Plan in the event the borrower defaults or fails to return the securities by agreeing to purchase replacement securities, or return the cash collateral in the event the borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the Custodian.

The Plan and the borrowers maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan is invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2005, such investment pool had a weighted maturity of 25 days with its average duration restricted to 120 days or less.

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005, the Plan had no credit risk exposure to borrowers. The following represents balances related to securities lending transactions as of June 30, 2005:

<u>Securities on Loan</u>	<u>Market Value of Securities</u>	<u>Cash Collateral Investment Value</u>
Domestic Equities	\$ 537,935	\$ 550,919

Hotel Roanoke Conference Center Commission

Investment Policy. The Hotel Roanoke Conference Center Commission adheres to the City of Roanoke's adopted investment policy and accordingly may invest in the following approved investment vehicles:

- Direct obligations of the federal government backed by the full faith and credit of the United States;
- Obligations of the Commonwealth of Virginia, including stocks, bonds and other evidences of indebtedness of the Commonwealth of Virginia, and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth of Virginia;
- Obligations of Virginia counties, cities, etc. (subject to certain restrictions);
- Obligations of the International Bank, Asian Development Bank and African Development Bank;
- Domestic bankers' acceptances from institutions with a rating of B/C or better in the Keefe, Bruyette & Woods, Inc. ratings;
- Commercial paper with a maturity of two-hundred seventy (270) days or less with a Moody's rating of prime 1 and Standard & Poor's rating of A-1, with the issuing corporation having a net worth of at least fifty million dollars per year of the previous five years; and all existing senior bonded indebtedness of the issuer, or its guarantor, is rated "A" or better by Moody's Investor Services, Inc., and Standard & Poor's, Inc.
- Corporate notes with a rating of at least Aa by Moody's Investor Services, Inc. and a rating of at least AA by Standard & Poor's, Inc. and a maturity of no more than five (5) years;
- Money market funds;
- Demand and savings deposits; and,
- Time deposits, certificates of deposit and repurchase agreements.

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

As of June 30, 2005, the HRCCC had the following investments:

<u>Investment</u>	Fair Value June 30, 2005	Investment Maturities (In Years)			Rating
		Less than 1	1-5	Totals	
Federal National Mortgage Association Bond	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 2,000,000	AAA
Federal Farm Credit Bank - Discount Note	1,466,099	1,466,099	-	\$ 1,466,099	AAA
Total	<u>\$ 3,466,099</u>	<u>\$ 1,466,099</u>	<u>\$ 2,000,000</u>	<u>\$ 3,466,099</u>	

All investments are held in the City's name on behalf of the HRCCC.

Interest rate risk. The HRCCC's investment policy requires maturities on debt securities not to exceed five years in duration from the date of purchase in order to manage its exposure to fair value losses arising from increasing interest rates.

Component Unit

Roanoke Redevelopment and Housing Authority Component Unit

Investment Policy. The Roanoke Redevelopment and Housing Authority's policy allows investment in unrestricted cash and the following HUD-approved vehicles:

- Direct obligations of the federal government backed by the full faith and credit of the United States
- Obligations of government agencies
- Securities of government sponsored agencies
- Demand and savings deposits
- Time deposits and repurchase agreements

At September 30, 2004, RRHA's cash, including both restricted and unrestricted, were in bank deposits or a money market fund that were insured or collateralized with securities held by RRHA or by its agent in RRHA's name.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

As of September 30, 2004, RRHA had the following investments, including both restricted and unrestricted:

	Fair value		Investment maturities (in years)			
	September 30, 2004	% of total	Less than 1	1-5	6-10	Totals
<u>Unrestricted</u>						
U.S. Treasuries	\$ 4,501,896	88%	\$ -	\$2,496,414	\$2,005,482	\$ 4,501,896
Certificates of deposit	498,606	10%	498,606	-	-	498,606
Total unrestricted investments	5,000,502	98%	498,606	2,496,414	2,005,482	5,000,502
<u>Restricted</u>						
Mutual government bond fund	105,245	2%	105,245	-	-	105,245
Total investments	\$ 5,105,747	100%	\$ 603,851	\$2,496,414	\$2,005,482	\$ 5,105,747

Custodial Credit Risk. RRHA's policy is to limit credit risk by adherence to the list of HUD permitted investments which are backed by the full faith and credit of or a guarantee of principal and interest by the U.S. Government. As of September 30, 2004, RRHA's investment in certificates of deposit of \$498,606 was FDIC insured, and \$4,607,142 was held in securities in RRHA's name backed by the federal government.

Interest Rate Risk. RRHA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(3) Receivables

Receivables as of June 30, 2005 consisted of the following:

Governmental Funds

		Special	Capital	Internal	Total	Component Units	
<u>Receivables</u>	<u>General</u>	<u>Revenue</u>	<u>Projects</u>	<u>Service</u>	<u>Governmental</u>	<u>School</u>	
					<u>Funds</u>	<u>Board</u>	<u>RRHA</u>
Interest and Dividends	\$ 289,848	\$ 162,704	\$ 257,857	\$ -	\$ 710,409	\$ -	\$ 20,172
Primary Government	-	-	-	-	-	-	5,658,209
Component Unit	3,106,926	-	-	6,952	3,113,878	-	-
Federal Government	19,385	-	-	-	19,385	4,793,104	856,843
State Government	9,920,816	77,648	-	-	9,998,464	3,470,921	-
Other Governments	405,609	-	-	13,103	418,712	233,608	-
Subtotal Governments	<u>10,345,810</u>	<u>77,648</u>	<u>-</u>	<u>13,103</u>	<u>10,436,561</u>	<u>8,497,633</u>	<u>856,843</u>
Taxes	8,203,161	-	-	-	8,203,161	-	-
Accounts	2,550,035	378,678	257	28,440	2,957,410	33,643	109,473
Less: Allowance for							
Uncollectible Accounts	(4,356,763)	-	-	-	(4,356,763)	-	(11,853)
Subtotal	<u>6,396,433</u>	<u>378,678</u>	<u>257</u>	<u>28,440</u>	<u>6,803,808</u>	<u>33,643</u>	<u>97,620</u>
Note	-	4,368,796	-	-	4,368,796	-	5,632,187
Net Receivables	<u>\$20,139,017</u>	<u>\$ 4,987,826</u>	<u>\$ 258,114</u>	<u>\$ 48,495</u>	<u>\$ 25,433,452</u>	<u>\$ 8,531,276</u>	<u>\$12,265,031</u>

Enterprise Funds

	Transit	Civic	Market	Total
<u>Receivables</u>	<u>Company</u>	<u>Facilities</u>	<u>Building</u>	<u>Enterprise</u>
			<u>Operations</u>	<u>Funds</u>
Federal Government	\$ 497,050	\$ -	\$ -	\$ 497,050
State Government	75,760	-	-	75,760
Other Governments	5,780	-	-	5,780
Subtotal	<u>578,590</u>	<u>-</u>	<u>-</u>	<u>578,590</u>
Accounts	25,700	16,507	44,469	86,676
Subtotal	<u>25,700</u>	<u>16,507</u>	<u>44,469</u>	<u>86,676</u>
Net Receivables	<u>\$ 604,290</u>	<u>\$ 16,507</u>	<u>\$ 44,469</u>	<u>\$ 665,266</u>

The taxes receivable account is largely comprised of the current and past nineteen years of uncollected tax levies on real property, the current and prior four years of uncollected tax levies for personal property and business and professional occupational license tax. The collectibility of these accounts has been considered in the allowance for uncollectible accounts.

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Net taxes and accounts receivable, as reported on the government-wide Statement of Net Assets, include taxes receivable of approximately \$2.2 million that are not available to pay for current period expenditures and are accordingly recorded as deferred revenue in the governmental funds balance sheet.

Due from other governments in the government-wide Statement of Net Assets also includes a restricted receivable in the amount of \$33,435,000 associated with a long-term liability for debt assumed by the City upon the formation of the Western Virginia Water Authority for which they are contractually obligated to repay.

The difference in receivables between the City and its RRHA component unit is due to a difference in reporting periods between the two entities. The RRHA's fiscal year ended on September 30, 2004, and over the remainder of the City's fiscal year, various RRHA related receivables and payables were cleared. As of June 30, 2005, the City's due to component unit totaled \$5,495,750, and there was no due from component unit.

(4) Interfund Balances and Transfers

Interfund balances consisted of the following at June 30, 2005:

	DUE FROM (FUND)						Total
	General	Capital Projects	Debt Service	Special Revenue	Internal Services	Civic Facilities	
DUE TO (FUND)							
General Fund	\$ -	\$ -	\$ 215,648	\$ 37,008	\$ 142,698	\$ 63,505	\$ 458,859
Civic Facilities	288,415	3,030	-	-	-	-	291,445
Parking	5,157	-	-	-	-	-	5,157
Capital Projects	76,045	-	-	-	-	3,030	79,075
Market Building	99,746	-	-	-	-	-	99,746
Internal Service	779,886	-	-	84	8,132	11,158	799,260
Fiduciary	203,971	-	-	-	12,118	4,764	220,853
TOTAL	\$ 1,453,220	\$ 3,030	\$ 215,648	\$ 37,092	\$ 162,948	\$ 82,457	\$ 1,954,395

All interfund balances represent timing differences resulting from the difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments are made.

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Interfund transfers consisted of the following at June 30, 2005:

		TRANSFER FROM (FUND)						
TRANSFER TO (FUND)	General	Debt Service	Special Revenue	Capital Projects	Internal Service	Civic Facilities	Total	
	General Fund	\$ -	\$ 15,500,000	\$ -	\$ 1,876	\$ -	\$ -	\$ 15,501,876
	Debt Service	15,509,082	-	488,945	-	-	66,219	16,064,246
	Special Revenue	227,101	-	-	-	44,595	-	271,696
	Capital Projects	5,296,390	-	-	-	-	-	5,296,390
	Transit Company	1,062,000	-	-	-	-	-	1,062,000
	Civic Facilities	1,529,198	-	-	-	-	-	1,529,198
	Parking	31,780	-	-	-	-	-	31,780
	Market Building	252,933	-	-	72,491	-	-	325,424
	Internal Service	2,062,457	-	-	-	-	-	2,062,457
TOTAL	\$ 25,970,941	\$ 15,500,000	\$ 488,945	\$ 74,367	\$ 44,595	\$ 66,219	\$ 42,145,067	

Transfers are used (1) to move revenues from the funds that are required by statute or budget to collect them to the funds that are required by statute or budget to spend them, (2) to move receipts restricted for debt service from the funds collecting them to the Debt Service Fund as debt service payments become due, and (3) to move unrestricted revenues collected in the General Fund, which finance various programs accounted for in other funds in accordance with budgetary authorizations.

(5) Note Receivable

Included in the Special Revenue Fund as of June 30, 2005, is a note receivable in the amount of \$4,368,796 from the Hotel Roanoke, LLC. The note originally provided \$6 million of the \$27.5 million expended for the rehabilitation and restoration of the Hotel Roanoke. The Hotel Roanoke, LLC is obligated to repay, in priority order, certain first mortgage loans held by banks and is then obligated to repay the note receivable and other debt. Funding for repaying this debt is available from resources of the Hotel Roanoke, LLC, generated by the operations of the Hotel Roanoke.

Principal is payable in nineteen annual installments with interest on the unpaid principal balance of the note at the fixed rate of 4.0% per annum. Beginning June 30, 2005, installments of principal and interest in the amount of \$496,757 are due and payable on June 30 of each year until June 30, 2014. If, in any one year, full payment of principal and interest is not made, that unpaid amount is payable on any subsequent annual installment payment date.

In this event, no additional interest would accrue. At June 30, 2005, unpaid installments totaling \$845,980 are due from the Hotel Roanoke, LLC. This amount is comprised of unpaid principal of \$683,276 and interest of \$162,704. During the year ended June 30, 2005, the Hotel Roanoke, LLC, made payments of \$828,938.

The loan repayments to the City are considered to be program income and are to be applied toward repayment of the City's \$6 million Section 108 loan from the United States Department of Housing and Urban Development.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(6) Changes in Capital Assets

Primary Government:

	Restated Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
<u>Governmental activities:</u>				
<u>Capital assets, not being depreciated:</u>				
Land	30,566,144	\$ 390,516	\$ -	\$ 30,956,660
Infrastructure - Right of Way	20,027,510	-	-	20,027,510
Construction in Process	50,133,802	34,745,614	(12,974,965)	71,904,451
Historical Treasures	714,025	91,272	-	805,297
Total Capital assets, not being depreciated	101,441,481	35,227,402	(12,974,965)	123,693,918
<u>Capital assets, being depreciated:</u>				
Land Improvements	800,670	679,202	-	1,479,872
Accumulated Depreciation	(4,860)	(53,441)	-	(58,301)
Net Land Improvements	795,810	625,761	-	1,421,571
Building & Structures	205,144,347	2,878,634		208,022,981
Accumulated Depreciation	(90,394,640)	(3,535,689)		(93,930,329)
Net Building & Structures	114,749,707	(657,055)	-	114,092,652
Infrastructure	133,752,901	8,060,559	-	141,813,460
Accumulated Depreciation	(48,169,960)	(4,353,669)	-	(52,523,629)
Net Infrastructure	85,582,941	3,706,890	-	89,289,831
Equipment	42,317,828	4,718,098	(977,308)	46,058,618
Accumulated Depreciation	(23,268,916)	(4,864,371)	959,118	(27,174,169)
Net Equipment	19,048,912	(146,273)	(18,190)	18,884,449
Total Capital Assets Being Depreciated	382,015,746	16,336,493	(977,308)	397,374,931
Less: Accumulated Depreciation	(161,838,376)	(12,807,170)	959,118	(173,686,428)
Net Total Capital Assets Being Depreciated	220,177,370	3,529,323	(18,190)	223,688,503
Governmental activities capital assets, net	\$ 321,618,851	\$ 38,756,725	\$ (12,993,155)	\$ 347,382,421
General Capital Assets, Net				\$ 325,798,514
Internal Service Fund Capital Assets, Net				21,583,907
Total				\$ 347,382,421

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

	Restated Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
<u>Business-type activities:</u>				
<u>Capital assets, not being depreciated:</u>				
Land	\$ 4,159,387	\$ -	\$ -	\$ 4,159,387
Construction in Process	4,330,818	3,868,368	(3,850,819)	4,348,367
Total Capital assets, not being depreciated	8,490,205	3,868,368	(3,850,819)	8,507,754
<u>Capital assets, being depreciated:</u>				
Land Improvements	68,446	-	-	68,446
Accumulated Depreciation	(47,068)	(1,880)	-	(48,948)
Net Land Improvements	21,378	(1,880)	-	19,498
Building and structures	58,019,847	3,688,507	-	61,708,354
Accumulated Depreciation	(21,936,009)	(1,253,941)	-	(23,189,950)
Net Building & Structures	36,083,838	2,434,566	-	38,518,404
Equipment	13,107,350	1,094,037	(178,886)	14,022,501
Accumulated Depreciation	(6,704,531)	(1,237,781)	171,205	(7,771,107)
Net Equipment	6,402,819	(143,744)	(7,681)	6,251,394
Total Capital Assets Being Depreciated	71,195,643	4,782,544	(178,886)	75,799,301
Less: Accumulated Depreciation	(28,687,608)	(2,493,602)	171,205	(31,010,005)
Net Total Capital Assets Being Depreciated	42,508,035	2,288,942	(7,681)	44,789,296
Business-type activities capital assets, net	\$ 50,998,240	\$ 6,157,310	\$ (3,858,500)	\$ 53,297,050

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Depreciation was charged to functions as follows:

Governmental activities:

General Government	\$ 326,061
Judicial Administration	253,354
Public Safety	1,133,163
Public Works	4,446,910
Health and Welfare	143,150
Parks, Recreation and Cultural	303,860
Community Development	5,192
Education	2,061,155
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	4,134,325
Total	<u><u>\$ 12,807,170</u></u>

Business-type activities:

Transit Company	\$ 1,447,930
Civic Facilities	465,102
Parking	572,868
Market Building	7,702
Total	<u><u>\$ 2,493,602</u></u>

School Board Component Unit:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
Equipment	\$ 10,248,300	\$ 269,656	\$ (110,889)	\$ 10,407,067
Accumulated Depreciation	(5,901,389)	(674,219)	110,889	(6,464,719)
Net Equipment	<u>4,346,911</u>	<u>(404,563)</u>	<u>-</u>	<u>3,942,348</u>
Component unit capital assets, net	<u><u>\$ 4,346,911</u></u>	<u><u>\$ (404,563)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,942,348</u></u>

Capital assets used for educational purposes totaling \$102,630,705 are included with the Governmental Activities capital assets.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Roanoke Redevelopment and Housing Authority Component Unit:

	Balance October 1, 2003	Increases	Decreases	Balance September 30, 2004
<u>Capital assets, not being depreciated:</u>				
Land	\$ 19,530,341	8,687,650	(7,601,671)	20,616,320
Construction in Process	16,024,322	4,137,396	(2,698,631)	17,463,087
Total Capital assets, not being depreciated	35,554,663	12,825,046	(10,300,302)	38,079,407
<u>Capital assets, being depreciated:</u>				
Land Improvements	236,851	-	-	236,851
Dwelling and improvements	60,403,050	1,710,625	(88,973)	62,024,702
Furniture, equipment and machinery	2,914,694	38,671	(1,071,664)	1,881,701
Infrastructure	1,267,826	906,863	(107,715)	2,066,974
Total Capital assets, being depreciated	64,822,421	2,656,159	(1,268,352)	66,210,228
<u>Less accumulated depreciation for:</u>				
Land Improvements	(8,296)	(7,110)	-	(15,406)
Dwelling and improvements	(35,492,985)	(1,800,527)	54,867	(37,238,645)
Furniture, equipment and machinery	(2,392,755)	(84,050)	930,916	(1,545,889)
Infrastructure	(5,232,470)	(296,063)	62,235	(5,466,298)
Total accumulated depreciation	(43,126,506)	(2,187,750)	1,048,018	(44,266,238)
Total Capital assets, being depreciated, net	21,695,915	468,409	(220,334)	21,943,990
Total Capital assets, net	\$ 57,250,578	13,293,455	(10,520,636)	60,023,397

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(7) Construction in Progress and Contract Commitments

A summary of construction in progress by function and contract commitments (encumbrances) at June 30, 2005 is as follows:

<u>Primary Government:</u>				
<u>Governmental Activities:</u>	Project	Expended as of	Contract	Required
	Authorizations	June 30, 2005	Commitments	Future
<u>Function</u>			(Encumbrances)	Financing
General Government	\$ 5,447,164	\$ 1,969,437	\$ 96,648	None
Parks, Recreation and Cultural	24,286,418	6,521,668	53,031	None
Flood Reduction	16,500,124	8,042,842	274,124	None
Economic Development	4,567,087	3,829,292	475,205	None
Community Development	19,522	14,986	-	None
Public Safety	14,518,410	3,645,931	2,574,721	None
Public Works	16,119,195	6,866,050	653,605	None
Education	55,735,989	34,529,275	14,931,529	None
Department of Technology	10,250,583	6,484,970	607,295	None
Fleet	99,500	-	-	None
Subtotal	147,543,992	71,904,451	19,666,158	
Non-Capitalized Projects	25,080,702	25,156,227	141,347	None
Total	\$ 172,624,694	\$ 97,060,678	\$ 19,807,505	

<u>Business-Type Activities:</u>				
<u>Fund</u>				
Civic Facilities	9,918,022	3,754,607	6,136,499	None
Parking	2,450,548	593,760	316,830	None
Market Building	174,000	-	-	None
Total	\$ 12,542,570	\$ 4,348,367	\$ 6,453,329	

(8) Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenue as reported in the governmental fund financial statements at June 30, 2005 consisted of the following:

	General Fund	Special Revenue Fund	Total
Deferred Property and Other Tax Revenue	\$ 2,182,613	\$ -	\$ 2,182,613
Prepaid Property Taxes	20,237	-	20,237
Other receivables for which revenue recognition criteria have not been met	-	4,993,452	4,993,452
Total	\$ 2,202,850	\$ 4,993,452	\$ 7,196,302

Unearned revenue reported in the government-wide Statement of Net Assets includes approximately \$2.6 million in tax revenue included as deferred revenue in the governmental fund statements.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(9) Long-Term Liabilities

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions. The fund balance of the Debt Service Fund at June 30, 2005 of \$988,465 is designated for future retirement of long-term debt. The Charter of the City of Roanoke limits the legal debt to 10% of the assessed valuation of real estate within the City limits. The City's legal debt margin at June 30, 2005 is \$277,112,746. The City has no overlapping debt. On July 1, 2004, the Western Virginia Water Authority commenced operations. In conjunction with its formation, the Authority assumed certain indebtedness of the City, and it agreed to pay the City amounts equal to debt service on Water and Water Pollution Control debt retained by the City. As of June 30, 2005, the City had \$33,435,000 in outstanding general obligation debt which will contractually be repaid by the Water Authority over the remaining twenty year amortization of the bonds.

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. Outstanding long-term liabilities as of June 30, 2005 are comprised of the following:

<u>Primary Government – Governmental Activities</u>		
<u>Original Amount</u>	<u>Description</u>	<u>Outstanding Amount at June 30, 2005</u>
\$35,800,000	1994 Public Improvement Series Bonds due in annual installments of \$1,380,000 through August 1, 2005; interest at 4.7%	\$ 1,380,000
\$31,300,000	1996 Public Improvement Series Bonds due in annual installments of \$1,000,000 through February 1, 2006; interest at 4.9%	1,000,000
\$13,010,000	1997A Public Improvement Series Bonds due in annual installments of \$650,000 through August 1, 2006; interest at 4.75%	1,300,000
\$40,822,285	1997B Public Improvement Series Bonds due in annual installments of \$1,460,000 to \$4,357,918 through August 1, 2013; interest at 4.75% to 5.0%	21,753,374
\$26,020,000	1999A Public Improvement Series Bonds due in annual installments of \$980,000 to \$1,245,000 through October 1, 2009; interest at 4.5% to 5.0%	5,545,000
\$10,100,000	1999B Public Improvement Series Bonds due in annual installments of \$865,000 to \$1,075,000 through October 1, 2009; interest at 4.5% to 5.0%	4,830,000
\$39,575,000	2002A Public Improvement Series Bonds due in annual installments of \$1,440,000 to \$2,150,000 through October 1, 2021; interest at 4.0% to 5.25%	34,875,000
\$12,000,000	2002B Public Improvement Series Bonds due in annual installments of \$440,000 to \$655,000 through October 1, 2021; interest at 4.0% to 5.0%	10,525,000

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Original Amount	Description	Outstanding Amount at June 30, 2005
\$26,385,000	2003 Public Improvement Series Bonds due in annual installments of \$190,000 to \$2,095,000 through August 1, 2024; interest at 2.0% to 5.0%	26,285,000
\$46,030,000	2004 Public Improvement Series Bonds due in annual installments of \$475,000 to \$5,305,000 through October 1, 2019; interest at 2.0% to 5.0%	45,835,000
\$ 7,935,000	2004A Public Improvement Series Bonds due in annual installments of \$110,000 to \$765,000 through August 1, 2017; interest at 2.0% to 3.625%	7,870,000
\$ 36,105,000	2004B Public Improvement Series Bonds due in annual installments of \$1,805,000 to \$1,810,000 through February 1, 2025; interest at 3.0% to 5.25%	36,105,000
\$ 1,291,618 (1)	2000 Qualified Zone Academy Bond due in annual installments of \$99,355 through December 20, 2013	894,197
\$ 800,000 (2)	2002 Qualified Zone Academy Bond due in annual installments of \$47,579 to \$71,107 through October 31, 2016	710,390
\$ 439,100 (3)	2004 Qualified Zone Academy Bond due in annual installments of \$22,386 to \$51,406 through December 29, 2020	439,100
	Subtotal General Obligation Bonded Debt	<u>\$199,347,061</u>
\$ 9,644,271	State Literary Fund Loans due in annual installments of \$250,000 to \$486,000 through October 1, 2019; interest at 4.0%	\$ 5,438,000
\$ 800,000	Virginia Public School Authority series 1990B bonds due in annual installments of \$45,000 to \$50,000 through July 15, 2010; interest at 6.98% to 7.1%. \$1,000,000 proceeds received, but repayment of only \$800,000 required.	275,000
\$ 1,654,827	Virginia Public School Authority series 1991A bonds due in annual installments of \$86,203 to \$98,645 through July 15, 2011; interest at 6.6%. \$2,005,500 proceeds received, but repayment of only \$1,654,827 required.	644,577
\$ 2,171,447	Virginia Public School Authority series 1992A bonds due in annual installments of \$108,450 to \$123,480 through July 15, 2012; interest at 5.9% to 6.35%. \$2,494,500 proceeds received, but repayment of only \$2,171,447 required.	921,721
\$ 1,679,413	Virginia Public School Authority series 1994B bonds due in annual installments of \$82,937 to \$98,742 through July 15, 2014; interest at 6.35% to 6.75%. \$2,000,000 proceeds received, but repayment of only \$1,679,413 required.	898,157

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

<u>Original Amount</u>	<u>Description</u>	<u>Outstanding Amount at June 30, 2005</u>
\$ 4,006,579	Virginia Public School Authority series 1995C bonds due in annual installments of \$199,360 to \$218,820 through July 15, 2015; interest at 5.1% to 6.1%. \$4,400,000 proceeds received, but repayment of only \$4,006,579 required.	2,296,615
\$ 4,512,217	Virginia Public School Authority series 1996 bonds due in annual installments of \$221,223 to \$248,508 through July 15, 2016; interest at 5.1% to 6.1%. \$5,000,000 proceeds received, but repayment of only \$4,512,217 required.	2,817,075
\$ 4,578,704	Virginia Public School Authority series 1997 bonds due in annual installments of \$221,875 to \$248,508 through July 15, 2017; interest at 5.1% to 5.35%. \$5,000,000 proceeds received, but repayment of only \$4,578,704 required.	3,042,389
\$ 5,000,000	Virginia Public School Authority series 1998A bonds due in annual installments of \$250,000 through July 15, 2018; interest at 4.35% to 5.1%	3,500,000
\$ 1,182,212	Virginia Public School Authority series 1998B bonds due in annual installments of \$58,281 to \$62,165 through July 15, 2018; interest at 4.35% to 5.1%. \$1,200,000 proceeds received, but repayment of only \$1,182,212 required.	832,549
\$ 3,100,000	Virginia Public School Authority series 1999A bonds due in annual installments of \$155,000 through July 15, 2019; interest at 5.1% to 6.1%. \$3,250,000 proceeds received, but repayment of only \$3,100,000 required.	2,325,000
\$ 1,091,854	Virginia Public School Authority series 1999B bonds due in annual installments of \$51,931 to \$61,863 through July 15, 2019; interest at 5.1% to 6.1%. \$1,250,000 proceeds received, but repayment of only \$1,091,854 required.	834,872
\$ 2,504,568	Virginia Public School Authority series 2000B bonds due in annual installments of \$118,339 to \$136,763 through July 15, 2020; interest at 5.1% to 5.85%. \$2,750,000 proceeds received, but repayment of only \$2,504,568 required.	2,037,524
\$ 1,730,421	Virginia Public School Authority series 2000B bonds due in annual installments of \$82,352 to \$94,490 through July 15, 2020; interest at 5.1% to 5.85%. \$1,900,000 proceeds received, but repayment of only \$1,730,421 required.	1,407,744
\$ 1,730,421	Virginia Public School Authority series 2000B bonds due in annual installments of \$82,352 to \$94,490 through July 15, 2020; interest at 5.1% to 5.85%. \$1,900,000 proceeds received, but repayment of only \$1,730,421 required.	1,407,744
\$ 2,594,691	Virginia Public School Authority series 2001B bonds due in annual installments of \$125,360 to \$136,763 through July 15, 2021; interest at 4.1% to 5.35%. \$2,750,000 proceeds received, but repayment of only \$2,594,691 required.	2,213,253

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

<u>Original Amount</u>	<u>Description</u>	<u>Outstanding Amount at June 30, 2005</u>
\$ 2,358,808	Virginia Public School Authority series 2001B bonds due in annual installments of \$113,963 to \$124,330 through July 15, 2021; interest at 4.1% to 5.35%. \$2,500,000 proceeds received, but repayment of only \$2,358,808 required.	2,012,046
\$ 4,595,399	Virginia Public School Authority series 2003C bonds due in annual installments of \$216,592 to \$248,659 through July 15, 2023; interest at 4.6% to 5.35%. \$5,000,000 proceeds received, but repayment of only \$4,595,399 required.	4,380,322
\$ 1,118,756	Virginia Public School Authority series 2004B bonds due in annual installments of \$46,315 to \$64,492 through January 1, 2025; interest at 4.1% to 5.6%. \$1,300,000 proceeds received, but repayment of only \$1,118,756 required.	1,118,756
\$ 6,000,000	Section 108 Loan Guarantee Assistance for Hotel Roanoke project, due to Federal Government in annual installments of \$310,000 to \$470,000 through August 1, 2013; interest at 3.74% to 4.83	<u>3,530,000</u>
Subtotal General Obligation Debt		<u>\$241,280,405</u>
	Capital Lease Payable – Human Services Building (Note 10)	4,717,760
	Capital Lease Payable – Capital Equipment (Note 10)	151,982
	Capital Lease Payable - Fleet Management Replacement Program (Note 10)	293,804
	Capital Lease Payable - Fleet Management Replacement Program (Note 10)	484,887
	Claims Payable for the Internal Service Funds	7,410,448
	Compensated Absences Payable for the General and Internal Service Funds	<u>5,645,008</u>
Total Governmental Activities Liabilities		<u>\$259,984,294</u>
<u>Primary Government - Business-type Activities</u>		
\$ 2,170,000	2002A Civic Center series bonds due in annual installments of \$70,000 to \$175,000 through October 1, 2021; interest at 4.0% to 5.25%	1,975,000
\$ 7,895,000	2004B Civic Center series bonds due in annual installments of \$215,000 to \$580,000 through February 1, 2025 interest at 3.0% to 5.25%	<u>7,895,000</u>
Total Civic Facilities Fund Long-Term Debt		<u>9,870,000</u>

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

<u>Original Amount</u>	<u>Description</u>	<u>Outstanding Amount at June 30, 2005</u>
\$ 4,852,715 (4)	1997B Parking facility series bonds due in annual installments of \$400,389 to \$651,299 through August 1, 2011; interest at 4.5% to 5.0%	3,731,626
\$ 2,500,000	2002A Parking facility series bonds due in annual installments of \$80,000 to \$200,000 through October 1, 2021; interest at 4.0% to 5.25%	2,275,000
\$ 2,000,000	2004B Parking facility series bonds due in annual installments of \$55,000 to \$145,000 through February 1, 2025; interest at 3.0% to 5.25%	<u>2,000,000</u>
	Total Parking Fund Long-Term Debt	<u>8,006,626</u>
	Compensated Absences Payable for the Enterprise Funds	<u>94,447</u>
	Total Business-Type Activities Long-Term Debt	<u>\$ 17,971,073</u>
	Total Primary Government Long-Term Liabilities	<u>\$277,955,367</u>
 <u>School Board Component Unit</u>		
	Compensated Absences Payable for Employees of the School Board	\$ 3,618,119
	Claims Payable for School Board Component Unit	<u>3,987,694</u>
	Total School Board Component Unit Long-Term Liabilities	<u>\$ 7,605,813</u>
 <u>Roanoke Redevelopment and Housing Authority Component Unit</u>		
	Mortgages Payable	\$ 5,970,356
	Homeowner's Mortgages Payable	1,671,075
	Bonds and Permanent Notes Payable	11,181,963
	Note Payable to Roanoke City Mills, Inc.	5,495,750
	Developer's Fee Payable	1,300,000
	Vested Compensated Absences Payable	<u>343,584</u>
	Total Roanoke Redevelopment and Housing Authority Component Unit Long-Term Liabilities	<u>\$ 25,962,728</u>

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Notes:

- (1) Annual payments are made to a sinking fund. No interest is accrued on this debt.
- (2) Annual payments are made to a sinking fund. Interest is earned on sinking fund deposits. Upon payment of each sinking fund deposit an amount equal to the deposit plus interest at 4.01862% shall be deemed to be defeased. Upon maturity, the balance of the sinking fund will fully redeem the principal balance of \$800,000.
- (3) Annual payments are made to a sinking fund. Interest is earned on sinking fund deposits. Upon payment of each sinking fund deposit an amount equal to the deposit plus interest at 2.0% shall be deemed to be defeased. Upon maturity, the balance of the sinking fund will fully redeem the principal balance of \$439,100.
- (4) The Parking Fund incurred deferred bond costs in connection with an advance refunding of debt. These costs are reported as a reduction of the refunding of debt in Exhibit H. Deferred bond costs are amortized over the life of the bonds.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

The annual requirements to amortize governmental activities debt outstanding as of June 30, 2005 are as follows:

FISCAL YEAR	GENERAL OBLIGATION SERIAL BONDS		WESTERN VIRGINIA WATER AUTHORITY GENERAL OBLIGATION SERIAL BONDS		VPSA/ LITERARY FUND LOANS/ BONDS	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2005-06	\$ 11,577,238	\$ 6,821,849	\$ 2,275,000	\$ 1,434,005	\$ 2,751,674	\$ 1,895,110
2006-07	11,862,609	6,040,814	2,285,000	1,333,661	2,768,506	1,746,033
2007-08	12,193,071	5,630,112	2,295,000	1,236,667	2,782,668	1,608,129
2008-09	12,483,285	5,202,812	2,305,000	1,134,892	2,723,616	1,466,835
2009-10	12,683,597	4,753,692	2,320,000	1,031,554	2,748,249	1,324,823
2010-15	56,457,003	17,047,899	10,485,000	3,490,537	13,034,231	4,565,933
2015-20	34,568,852	7,041,453	5,755,000	1,800,936	9,453,771	1,597,592
2020-25	14,086,406	1,808,380	5,715,000	547,642	2,140,629	168,797
2025-30	-	56,250	-	-	-	-
TOTAL	\$ 165,912,061	\$ 54,403,261	\$ 33,435,000	\$ 12,009,894	\$ 38,403,344	\$ 14,373,252

The following general obligation debt is issued to support business-type activities. The annual requirements to amortize business-type activities debt outstanding as of June 30, 2005 are as follows:

FISCAL YEAR	CIVIC FACILITIES FUND SERIAL BONDS		PARKING FUND SERIAL BONDS		TOTAL BUSINESS-TYPE DEBT	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2005-06	\$ 285,000	\$ 491,724	\$ 567,082	380,877	\$ 852,082	\$ 872,601
2006-07	360,000	412,011	619,113	336,824	979,113	748,835
2007-08	375,000	399,586	661,144	306,949	1,036,144	706,535
2008-09	385,000	386,611	698,514	274,458	1,083,514	661,069
2009-10	400,000	373,236	750,883	239,848	1,150,883	613,084
2010-15	2,245,000	1,649,747	2,304,890	765,966	4,549,890	2,415,713
2015-20	2,825,000	1,097,370	1,340,000	439,350	4,165,000	1,536,720
2020-25	2,995,000	398,438	1,065,000	116,911	4,060,000	515,349
TOTAL	\$ 9,870,000	\$ 5,208,723	\$ 8,006,626	\$ 2,861,183	\$ 17,876,626	\$ 8,069,906

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

<u>SECTION 108 LOAN</u>		<u>TOTAL GENERAL OBLIGATION DEBT</u>	
<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
\$ 310,000	\$ 129,463	\$ 16,913,912	\$ 10,280,427
330,000	122,790	17,246,115	9,243,298
350,000	113,616	17,620,739	8,588,524
370,000	101,925	17,881,901	7,906,464
395,000	87,887	18,146,846	7,197,956
1,775,000	156,863	81,751,234	25,261,232
-	-	49,777,623	10,439,981
-	-	21,942,035	2,524,819
-	-	-	56,250
<u>\$ 3,530,000</u>	<u>\$ 712,544</u>	<u>\$ 241,280,405</u>	<u>\$ 81,498,951</u>

The annual requirements to amortize Roanoke Redevelopment and Housing Authority debt outstanding as of September 30, 2004 are as follows:

<u>FISCAL YEAR</u>	<u>BONDS/PERMANENT NOTES/ MORTGAGES PAYABLE</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>
2005	\$ 1,675,474	\$ 972,435
2006	1,036,156	926,552
2007	1,088,113	877,975
2008	1,772,644	825,256
2009	1,045,312	754,431
2010-14	3,963,220	2,966,003
2015-19	716,586	2,325,874
2020-24	473,453	2,147,896
2025-29	679,571	1,941,778
2030-34	975,424	1,645,926
2035-39	1,400,075	1,221,275
2040-42	3,997,366	385,938
	<u>\$ 18,823,394</u>	<u>\$ 16,991,339</u>

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

CHANGES IN GENERAL LONG-TERM LIABILITIES

	Restated Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
<u>Primary Government - Governmental Activities:</u>					
General Obligation Serial Bonds	\$ 138,322,637	\$ 36,544,100	\$ 8,954,676	\$ 165,912,061	\$ 11,577,238
General Obligation Serial Bonds - WVWA	35,645,000	-	2,210,000	33,435,000	2,275,000
Hotel Roanoke Section 108 Loan	3,825,000	-	295,000	3,530,000	310,000
State Literary Fund Loans	5,924,000	-	486,000	5,438,000	486,000
VPSA School Bonds	34,047,080	1,118,756	2,200,492	32,965,344	2,265,674
Capital Leases	6,797,976	-	1,149,543	5,648,433	758,497
Deferred Amount on Refundings and Premiums	(2,348,224)	1,460,022	(158,475)	(729,727)	-
Total Bonds, Loans and Leases Payable	222,213,469	39,122,878	15,137,236	246,199,111	17,672,409
Claims Payable	7,956,946	10,630,721	11,177,219	7,410,448	2,962,825
Compensated Absences Payable	5,489,983	4,359,328	4,204,303	5,645,008	3,903,712
Subtotal Governmental Activities:	\$ 235,660,398	\$ 54,112,927	\$ 30,518,758	\$ 259,254,567	\$ 24,538,946
<u>Primary Government - Business-Type Activities:</u>					
General Obligation Serial Bonds	\$ 8,532,015	\$ 9,895,000	\$ 550,389	\$ 17,876,626	\$ 852,082
Deferred Amount on Refundings and Premiums	(68,418)	400,137	64	331,655	-
Total Bonds, Loans and Leases Payable	8,463,597	10,295,137	550,453	18,208,281	852,082
Compensated Absences Payable	90,136	80,574	76,263	94,447	66,113
Subtotal Business-Type Activities:	\$ 8,553,733	\$ 10,375,711	\$ 626,716	\$ 18,302,728	\$ 918,195
Total Primary Government Long-Term Liabilities	\$ 244,214,131	\$ 64,488,638	\$ 31,145,474	\$ 277,557,295	\$ 25,457,141
<u>School Board Component Unit:</u>					
Compensated Absences Payable	\$ 3,595,168	\$ 1,327,277	\$ 1,304,326	\$ 3,618,119	\$ 794,759
Claims Payable	4,691,953	12,952,091	13,656,350	3,987,694	3,987,694
Total School Board Component Unit	\$ 8,287,121	\$ 14,279,368	\$ 14,960,676	\$ 7,605,813	\$ 4,782,453
<u>Roanoke Redevelopment and Housing Authority Component Unit:</u>					
Mortgages Payable	\$ 6,038,147	\$ -	\$ 67,791	\$ 5,970,356	\$ 70,066
Home Owners' Mortgages Payable	1,658,058	189,100	176,083	1,671,075	128,493
Bonds and Permanent Notes Payable	11,223,671	724,731	766,439	11,181,963	1,476,915
Note Payable to Roanoke City Mills, Inc.	-	5,495,750	-	5,495,750	5,495,750
Developer's Fee Payable	1,300,000	-	-	1,300,000	-
Vested Compensated Absences Payable	345,580	267,377	269,373	343,584	268,082
Total Roanoke Redevelopment and Housing Authority Component Unit	\$ 20,565,456	\$ 6,676,958	\$ 1,279,686	\$ 25,962,728	\$ 7,439,306

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

During fiscal year 2005, the Debt Service Fund was used to account for the repayment of most long-term liabilities of governmental activities as shown above. However, a portion of capital leases, claims payable and compensated absences was liquidated by Internal Service Funds. The remaining portion of compensated absences was liquidated by the General Fund.

On November 23, 2004, the City issued its Series 2004B general obligation public improvement bonds in the amount of \$46,000,000. Principal proceeds in the amount of \$25,000,000 will be used to construct the new Patrick Henry High School, \$11,105,000 will be used to construct new Police and Fire Buildings, \$7,895,000 to continue Phase II of construction on the Civic Facilities, and \$2,000,000 to construct the Downtown West parking Garage. The Series 2004B bonds were issued with a true interest cost of 3.91%.

The Roanoke Redevelopment and Housing Authority, with the approval of the City or other Commonwealth of Virginia local governmental entities, may issue and sell debt to finance the acquisition, development, construction and/or rehabilitation of mixed-use and/or multi-family housing project and commercial facilities deemed to be in the public interest. Such debt is payable solely from the revenue of the projects, which are owned by the developers, and does not constitute a debt or pledge of the full faith and credit of RRHA, the commonwealth of Virginia or any political subdivision thereof. Accordingly, such debt and related assets are not presented in the basic financial statements. The aggregate amount of all conduit debt obligations outstanding was \$9,673,000 as of September 30, 2004. No debt of this type was issued during the fiscal year ended September 30, 2004.

(10) Capital Leases

Motorola Leasing Corporation

During 1998, the City entered into an agreement with Motorola to lease a regional radio system. Under the lease agreement, the City pays annual installments of \$445,052 to Motorola, representing principal and interest payments with interest at 4.16%. The seven year lease ended January 1, 2005. At the end of the lease, ownership of the equipment totaling \$2,544,154 with accumulated depreciation of \$1,523,743 passed to the City.

Suntrust Leasing Corporation

During 2001, the City entered into an agreement with Suntrust to fund capital equipment purchases. Under the lease agreement, the City pays semi-annual installments of \$230,407 to Suntrust, representing principal and interest payments with interest at 4.47%. The lease term is five years. Ownership of the equipment is retained by the City from the date of asset acquisition.

Lease assets and obligations are accounted for in the General Fund and the Internal Service Funds. At June 30, 2005, equipment assets under the capital lease in the General Fund totaled \$700,000 and accumulated depreciation on those assets totaled \$100,858. Equipment assets under the capital lease in the Internal Service Funds totaled \$1,767,211 and accumulated depreciation on those assets totaled \$973,495.

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Blue Eagle Partnership

During 2004, the City entered into an agreement with Blue Eagle Partnership to rent the third floor of a building to house the Social Services Department. Under the lease agreement, the City of Roanoke pays monthly rent of \$52,282 to Blue Eagle, representing principal and interest payments with interest at 11.80%. The lease term is twenty years. Ownership of the building is retained by Blue Eagle Partnership.

Lease assets and obligations are accounted for in the General Fund. At June 30, 2005, the building under the capital lease in the General Fund totaled \$4,857,000 and accumulated depreciation on the building totaled \$242,499.

Koch Financial Corporation

During 2002, the City entered into an agreement with Koch to fund capital equipment purchases. Under the lease agreement, the City pays semi-annual installments of \$126,941 to Koch, representing principal and interest payments with interest at 3.74%. The lease term is five years. Ownership of the equipment is retained by the City from the date of asset acquisition.

Lease assets and obligations are accounted for in an Internal Service Fund. At June 30, 2005, equipment assets under the capital lease totaled \$1,151,650 and accumulated depreciation on those assets totaled \$346,220.

The following is a schedule of future minimum lease payments under the remaining capital leases, together with the net present value of the minimum lease payments as of June 30, 2005:

	Governmental Funds	Internal Service Funds	Total Governmental Activities
2006	784,479	557,597	1,342,076
2007	627,379	253,883	881,262
2008	627,379	-	627,379
2009	627,379	-	627,379
2010	627,379	-	627,379
2011-2015	3,136,895	-	3,136,895
2016-2020	3,136,895	-	3,136,895
2021-2025	2,248,110	-	2,248,110
Minimum lease payments	\$ 11,815,895	\$ 811,480	\$ 12,627,375
Less: Amounts representing interest	(6,946,153)	(32,789)	(6,978,942)
Present value of minimum lease payments	4,869,742	778,691	5,648,433
Less: Current portion	(226,741)	(531,756)	(758,497)
Long-Term Lease Obligation at June 30, 2005	\$ 4,643,001	\$ 246,935	\$ 4,889,936

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

(11) Fund Balances

Except for those required to comply with accounting standards, all reservations and designations of General Fund balance reflect City Code requirements or City Council action in the context of adoption of the City's budget.

General Fund balance of \$1,389,488 is reserved for goods and services ordered but not received by June 30, 2005.

General Fund designations at June 30, 2005 consisted of the following:

- Code of the City of Roanoke (1979), as amended, stipulates that, at the conclusion of each fiscal year, \$250,000, to the extent available from any undesignated General Fund balance, shall be reserved for self-insured liabilities of the City. Subsequent to year end, this amount shall be transferred to the Risk Management Internal Service Fund for accumulation as a reserve for uninsured claims. The maximum balance of the reserve in the Risk Management Fund shall be 3% of total General Fund appropriations for the concluded fiscal year. As of June 30, 2005, \$166,730 was reserved in the General Fund for self-insured liabilities.
- \$15,650,125 for designated for budget stabilization reserve. The reserve was established to serve as a funding source for emergencies or unforeseen declines in revenues. The reserve is supported by the Budget Stabilization Policy which was adopted by City Council in April 2005. This policy states that the reserve minimum will be 5% of the General Fund budget with a target of 8%.
- \$3,843,911 remains undesignated. Undesignated fund balance will be used for the funding of capital improvements and capital maintenance and equipment replacement.

Debt Service Fund balance of \$988,465 is designated for future debt service payments.

Capital Projects Fund balance of \$19,200,210 is reserved for goods and services ordered but not received or paid by June 30, 2005. Fund balance of \$39,994,304 is designated for future capital projects expenditures.

(12) Pensions and Deferred Compensation Plan

City employees participate in one of two different pension plans and a deferred compensation plan. The first plan is primarily for City employees and is entitled the City of Roanoke Pension Plan (Pension Plan). Sheriff's employees participate in the second plan, the Virginia Retirement System (VRS). All City employees may also participate in an Internal Revenue Code Section 457 deferred compensation plan.

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Disclosure concerning these plans is as follows:

City of Roanoke Pension Plan - Plan Description

The Pension Plan is a cost-sharing multiple-employer defined benefit plan established by City Council and is included in the City's basic financial statements as a Pension Trust Fund. The Pension Plan was established by City Council in 1946. The Pension Plan covers all employees of the Roanoke Regional Airport Commission and the Roanoke Valley Juvenile Detention Commission, certain employees of the Roanoke Valley Resource Authority and the Western Virginia Water Authority, substantially all employees of the City; and non-professional City of Roanoke School Board employees. The City is the major contributor of employer contributions to the Pension Plan. City Council appoints members of the Pension Plan Board of Trustees to administer the Pension Plan. The Pension Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA) of 1974.

Effective July 1, 1984, the Pension Plan changed its name from the Employees' Retirement System of the City of Roanoke, Virginia (ERS) to City of Roanoke Pension Plan. This change provided for an Employees' Supplemental Retirement System (ESRS) which modified certain benefits as defined by the ERS. All employees covered under the provisions of the ERS at June 30, 1984, could elect to remain with the ERS or be covered under the provisions of the ESRS. Coverage under the ESRS was mandatory for all employees hired or rehired on or after July 1, 1984. Both the ERS and the ESRS share a common trust fund from which all benefits are paid without distinction as to the source of funds and are administered by the Board of Trustees. The Pension Plan provides retirement benefits as well as death and disability benefits.

Employees who are members of the ERS with 30 years of service or age 60 (normal retirement age) are entitled to an annual retirement benefit equal to 1/70 (1.429%) of their average final compensation (highest consecutive 12 months), excluding overtime, for each year of service. Employees may retire with 20 years of service and receive a reduced retirement benefit. For employees who are married at their retirement date, a joint and survivor annuity is payable monthly. If employees under age 60 terminate before rendering ten years of service, they forfeit the right to receive any Pension Plan benefits. There is no mandatory retirement age.

Employees who are members of the ESRS with 5 years or more of credited service and age 65 or over, general employees who have attained age 50 with age plus service equal to 80, and police officers and firefighters who have attained age 45 with age plus service equal to 70, are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.1 percent of their final average compensation for each year of credited service up to a maximum of 63 percent. Final average compensation is the employee's average salary, excluding overtime, over the highest 36 consecutive months of credited service. Employees with 5 years of credited service may retire at age 55 and receive a reduced retirement benefit. Employees may elect to receive their retirement benefits in the form of a single life annuity or a joint and survivor annuity payable monthly from retirement. If employees under age 65 terminate before rendering five years of service, they forfeit the right to receive any Pension Plan benefits. There is no mandatory retirement age.

An additional monthly supplement equal to the greater of (a) \$159; or, (b) 75% of the amount the City contributes toward the cost of a single active employee's health insurance shall be

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

paid for eligible retirees until the month in which the retiree attains age 65. Any member of the City of Roanoke Pension who was an employee of one of the participating employers of the Plan (excluding employees of the City of Roanoke School Board) and who retired after earning 20 or more years of creditable service but prior to attaining the age of 65 is eligible for this supplement. This supplement is not available to retirees receiving the early retiree incentive plan supplement granted in 1991.

The City of Roanoke Pension Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Roanoke Retirement Office, Attention: Retirement Administrator, P.O. Box 1220, Roanoke, Virginia 24006.

City of Roanoke Pension Plan - Funding Policy

The Pension Plan is noncontributory for employees. Employer contributions to the Pension Plan are based on a percentage of the annual compensation of the active members. The City's contribution rate for the fiscal year ended June 30, 2005 was 9.56% of annual covered payroll.

City of Roanoke Pension Plan - Annual Pension Cost

For fiscal year 2005, the City's annual pension cost of \$5,447,515 was equal to the City's required and actual contributions. As stipulated by City Code, the required contribution was determined as part of the June 30, 2003 actuarial valuation using the projected unit credit actuarial cost method. Any unfunded/(overturned) actuarial liability is amortized using the level percentage of pay amortization method over a 20-year closed amortization period. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases ranging from 4.5% to 8.5% per year, and (c) 1.4% cost-of-living adjustment effective July 1, 2003. Projected salary increases include an inflation component of 3.75%. The actuarial value of the assets is determined using a method designed to smooth the impact of market fluctuations. The actuarial value recognizes annual appreciation and depreciation over a five-year period. The following information is provided related to trend information.

**Trend Information
City of Roanoke, Virginia**

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2003	3,970,354	100%	-0-
June 30, 2004	4,614,932	100%	-0-
June 30, 2005	5,447,515	100%	-0-

Virginia Retirement System - Plan Description

The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (VRS or the System). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

with 5 years of service for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5 percent per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500.

Virginia Retirement System - Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be assumed by the employer. The City has assumed the employee's 5% contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended June 30, 2005 was 11.25% of annual covered payroll.

Virginia Retirement System - Annual Pension Cost

For fiscal year 2005, the City's annual pension cost of \$898,957 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. Any unfunded actuarial liability is amortized as a level percentage of payroll on an open basis within a period of 25 years. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The following information related to trend information is provided.

Trend Information
City of Roanoke, Virginia

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	452,828	100%	-0-
June 30, 2004	460,417	100%	-0-
June 30, 2005	898,957	100%	-0-

CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(13) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk management activities are accounted for in the Risk Management Internal Service Fund.

Annually, up to \$250,000 is designated in the General Fund for self-insurance. This amount is transferred to the Risk Management Fund in the subsequent year. Claims expenditures/expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported (IBNR) based on an annual actuarial study performed by a third party.

The City has general liability and automobile liability insurance through a commercial insurer. This coverage includes a \$1 million deductible, per occurrence, and provides indemnity to cover settlements that exceed this amount. The amount of settlements did not exceed insurance coverage for each of the past three years.

The City has property insurance coverage with a \$100,000 deductible. The Roanoke Civic Center is insured under a package policy including property and liability coverage to address the unique exposures of this facility and its many events. Flood insurance is purchased to protect properties in flood zones. Boiler and machinery insurance is purchased to protect various City properties. Pollution legal liability coverage is purchased and provides coverage of up to \$5 million over a three-year period with a \$100,000 deductible. The amount of insurance claims did not exceed coverage limits for each of the past three years.

The City purchases a liability policy and an accidental injury medical policy to protect up to 150 volunteers who perform tasks on behalf of the City. The City purchases medical malpractice liability insurance to protect its medical personnel. The amount of settlements did not exceed insurance coverage for each of the past three years.

The City is self-insured for employee health insurance with stop loss provisions to limit catastrophic claims. The City is self-insured for workers' compensation.

Included in long-term liabilities at June 30, 2005, were claims payable of \$7,410,448 as a provision for unasserted claims. The City's policy is to fully fund the liability on an ongoing basis and, as such, resources required to settle liabilities resulting from claims are available in cash and investments. Other risks insured through the City's self-insurance program adequately covered any claims incurred over each of the past three years. Changes in the reported liability during the prior three years are shown in the following tabulation:

	2004-05	2003-04	2002-03
Claims liability at July 1	\$ 7,956,946	\$ 8,200,206	\$ 7,178,122
Claims incurred	10,630,721	9,845,228	11,311,880
Claims payments	(11,177,219)	(10,088,488)	(10,289,796)
Claims liability at June 30	<u>\$ 7,410,448</u>	<u>\$ 7,956,946</u>	<u>\$ 8,200,206</u>

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Surety Bond coverage is as follows:

Fidelity and Deposit Company of Maryland:

	<u>Amount</u>
City Council	\$1,000,000
All City Employees - Blanket Bond	1,000,000
Clerk of the Circuit Court	500,000
Treasurer - Public Official Bond	1,000,000
Treasurer - Crime Bond	200,000
Treasurer's Office - Crime Bond	100,000
Sheriff	30,000
Commissioner of the Revenue	3,000
Civic Center Employees:	
Director of Civic Facilities	250,000
Manager of Civic Facilities	250,000
Box Office Supervisor	250,000
Assistant Box Office Supervisor	250,000
Pension Plan Trustees/Administrators	2,000,000

Self-insurance program through Commonwealth of Virginia Division of Risk Management:

City Treasurer's Employees - Blanket Bond	750,000
All Other Constitutional Officers' Employees - Blanket Bond	500,000

School Board Component Unit

The School Board Component Unit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. There have been no significant changes in insurance coverage, or settlements exceeding insurance coverage, during the past three years.

The School Board Component Unit is self-insured for workers' compensation claims as well as for health insurance claims. Changes in the reported liability during the prior three years are shown in the following tabulation:

	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>
Claims liability at July 1	\$ 4,691,953	\$ 5,298,293	\$ 5,067,119
Claims incurred	12,952,091	10,128,392	10,527,101
Claims payments	(13,656,350)	(10,734,732)	(10,295,927)
Claims liability at June 30	<u>\$ 3,987,694</u>	<u>\$ 4,691,953</u>	<u>\$ 5,298,293</u>

Roanoke Redevelopment and Housing Authority Component Unit (RRHA)

Roanoke Redevelopment and Housing Authority is exposed to various risks of loss from torts, theft of, damage to, or destruction of assets, business interruption, errors or omissions, job-related illnesses or injuries to employees, and natural disasters. RRHA has purchased

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

commercial insurance to mitigate its exposure for such losses. The various insurance policies are subject to deductible amounts and maximum coverage. If the deductibles and maximums are exceeded, this could cause RRHA to suffer losses, if a loss is incurred from any such incidents. The ultimate outcome of uninsured losses cannot presently be determined and no provision for any liability that may result, if any, has been made. Settled claims to date have not exceeded coverage levels, and insurance coverage, by major categories of risk, is consistent with coverage in the prior year.

(14) Joint Ventures

Hotel Roanoke Conference Center Commission

The City is a participant with Virginia Tech in a joint venture to establish and operate a publicly-owned Conference Center in the City of Roanoke in conjunction with the Hotel Roanoke, which is adjacent to the Conference Center. The Commission is composed of six members, three of whom are appointed by City Council and three of whom are appointed by Virginia Tech. The Commission has the authority to issue debt, and such debt is the responsibility of the Commission. The City has issued general obligation bonds in its name for its share of the Conference Center construction costs and is obligated to repay this debt.

The intention of the Commission is to be self-supporting through its user fees. The City and Virginia Tech share equally in any operating deficit or additional funding needed for capital expenditures. The City has no equity interest in the Commission; however, as previously mentioned, additional funding or subsidies may be necessary. For the fiscal year ended June 30, 2005, the City contributed \$100,000 to the Commission. Financial statements may be obtained from the Hotel Roanoke Conference Center Commission, 106 Shenandoah Avenue, Roanoke, Virginia 24016.

Roanoke Valley Regional Fire-EMS Training Center

The City along with the County of Roanoke, City of Salem, and Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire-EMS recruits are required to take a five-month training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City is responsible for forty-four percent of the annual operating costs. For the fiscal year ended June 30, 2005, the City paid \$33,000 of the total annual operating costs of the facility. Financial statements may be obtained from the Roanoke Valley Regional Fire-EMS Training Center, 1220 Kessler Mill Road, Salem, Virginia 24153.

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

(15) Jointly Governed Organizations

Roanoke Valley Regional Board

The Counties of Botetourt, Craig, Franklin, and Roanoke, and the Cities of Roanoke and Salem jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is composed of six members, one from each participating locality. The City of Roanoke has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on its proportionate share of students attending the regional program. For the fiscal year ended June 30, 2005, the City of Roanoke School Board, a component unit of the City, remitted approximately \$2,076,000 to the Regional Board for services.

Roanoke Valley Resource Authority

The City of Roanoke, the County of Roanoke, and the Town of Vinton jointly participate in the Roanoke Valley Resource Authority (Authority), which operates the regional sanitary landfill, waste collection and transfer station, and related treatment facilities. The Authority is governed by a board composed of seven members designated by the participating jurisdictions. City Council appoints two members. The City has control over the budget and financing for the Authority only to the extent of representation by the board members appointed. The participating localities are each responsible for their pro rata share, based on population, of any year-end operating deficit. For the fiscal year ended June 30, 2005, the City remitted approximately \$2,145,000 to the Authority for services.

Roanoke Regional Airport Commission

The City and Roanoke County formed the Roanoke Regional Airport Commission (Commission) in 1986 to own and operate a regional airport. The Commission is composed of five members. Three commissioners are appointed by Roanoke City Council and two are appointed by the Roanoke County Board of Supervisors. Airport operations are financed by user fees. The City and the County are each responsible for their pro rata share, based on population, of any year-end operating deficit or unfunded capital projects if any additional funding is required. The Commission may incur debt and is responsible for paying all outstanding debt. The City has control over budget and financing only to the extent of representation by the board members appointed. No subsidy has been required since inception.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) in 1998 to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six member board. Roanoke City Council appoints two members. Each locality's financial obligation is based on the number of juveniles housed at the facility. The Commission has the authority to issue debt, and such debt is the responsibility of the Commission. For the

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

fiscal year ended June 30, 2005, the City remitted approximately \$1,281,000 to the Roanoke Valley Detention Commission in per diem charges for juveniles housed by the Commission.

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke, and the Cities of Roanoke and Salem formed the Blue Ridge Behavioral Health Care (BRBH) to provide a system of comprehensive community mental health, mental retardation and substance abuse services. BRBH is governed by a sixteen member board. Roanoke City Council appoints three members. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the fiscal year ended June 30, 2005, the City remitted approximately \$453,000 to BRBH.

Fifth Planning District Disability Services Board

The Counties of Alleghany, Botetourt, Craig and Roanoke, the Town of Vinton, and the Cities of Roanoke, Salem and Covington jointly participate in the Fifth Planning District Disability Services Board (Board). The Board provides input to state and local agencies on service needs and priorities of persons with physical and sensory disabilities. Roanoke City Council appoints one member to the fifteen member board. The City has no continuing financial obligation to the Board.

Roanoke Valley Regional Animal Control Facility

The City, the Counties of Roanoke and Botetourt and the Town of Vinton jointly participate on the Advisory Board, which is responsible for the general fiscal and management policies for the Roanoke Valley Regional Animal Control Facility (RVRACF). Each participating locality pays monthly amounts for its share of operating costs, debt service and to fund reserves for operating and maintenance needs of the RVRACF based on the locality's average use of the facility. The City's share is currently 51%, and during the year ended June 30, 2005, the City remitted approximately \$458,000 for its share of RVRACF expenses. In the event the total net expenses, for a fiscal year, exceed the total amounts collected from the participating localities, each participating locality shall pay an amount equal to the excess of the net expenses multiplied by the use percentage for that locality.

Western Virginia Water Authority

The City of Roanoke and the County of Roanoke combined its water and water pollution control functions to form the Western Virginia Water Authority (WVWA) on July 1, 2004. The WVWA is responsible for the supply, treatment, distribution, and transmission of water and the collection and treatment of wastewater. The WVWA is governed by a seven member board consisting of three City appointees, three County appointees, and one additional member selected by the other six. The City has control over the budget and financing for the WVWA only to the extent of representation by the board members appointed. Upon formation of the WVWA, the City retained \$35,645,000 of general obligation bonds, which are contractually to be repaid by the WVWA in accordance with its operating agreement. During fiscal year 2005, \$3,745,969 in locality compensation payments were paid by the WVWA to the City to cover principal and interest payment on the bonds. As of

**CITY OF ROANOKE, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

June 30, 2005, the remaining principal balance of these bonds was \$33,435,000, and this amount was recorded as a restricted receivable in the Statement of Net Assets of the basic financial statements.

(16) Related Organization

Industrial Development Authority of the City of Roanoke, Virginia

The Industrial Development Authority issues low-interest, tax-free industrial and hospital revenue bonds in its name to acquire and improve property that is sold or leased to enterprises locating or remaining in the City of Roanoke. Roanoke City Council is responsible for appointing the seven member board, but has no financial responsibility for the debt of the Industrial Development Authority.

(17) Subsequent Events

On October 17, 2005, City Council authorized the execution of a purchase option with Fairways Group, LP to acquire the 140 acre Countryside Golf Course for \$4.1 million. Closing took place on November 10, 2005. On November 15, 2005, the City received bids for General Obligation Taxable Bonds in the amount of \$3,975,000 to fund the acquisition. These bonds will be issued in December 2005. The City has negotiated a management agreement with Meadowbrook Golf Group, Inc. for the continued operation of the facility as a golf course for one year after its purchase.

In November 2005, the City received bids on \$15 million in Bond Anticipation Notes. These bonds will be used to fund certain capital projects in anticipation of the issuance of long-term General Obligation Bonds - Series 2006 in January. The City expects to issue the Bond Anticipation Notes in December 2005.

(18) Commitments and Contingencies

The City is named as a defendant in litigation involving claims for personal injury or property damages. City officials estimate that any ultimate liability not covered by insurance would not have a material effect on the City's financial position.

The Roanoke Redevelopment and Housing Authority (RRHA) contracted with Roanoke City Mills for the purchase of property. Under the agreement, a portion of the sale price was paid at closing, with the remaining balance of \$5,495,750 due on December 15, 2005. The City secured this note payable on behalf of the RRHA through the issuance of an irrevocable letter of credit. The amount is recorded by the City as a Due to Component Unit at June 30, 2005.

Grants are subject to audit to determine compliance with their requirements. City officials believe that if any refunds are required, they will be immaterial.

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CITY OF ROANOKE, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
(UNAUDITED)

(1) Budgetary Comparison Schedule - General Fund

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance from Final Budget Over/(Under)
Budgetary Fund Balance, July 1	\$ 4,498,005	\$ 4,498,005	\$ 4,498,005	\$ -
Resources (Inflows):				
General Property Taxes	\$ 87,491,000	\$ 79,623,211	\$ 81,199,730	\$ 1,576,519
Other Local Taxes	62,631,000	63,017,000	64,538,427	1,521,427
Permits, Fees, and Licenses	1,112,000	1,112,000	1,275,026	163,026
Fines and Forfeitures	1,321,000	1,321,000	1,354,775	33,775
Revenue from Use of Money and Property	735,000	735,000	796,688	61,688
Charges for Services	10,845,000	11,098,380	11,114,029	15,649
Intergovernmental	47,321,000	59,007,375	57,980,957	(1,026,418)
Miscellaneous	320,000	494,445	593,786	99,341
Transfer from Capital Projects Fund	-	1,876	1,876	-
Transfer from Debt Service Fund	-	15,500,000	15,500,000	-
Amounts Available for Appropriation	\$ 216,274,005	\$ 236,408,292	\$ 238,853,299	\$ 2,445,007
Charges to Appropriations (Outflows):				
General Government				
City Treasurer	\$ 835,374	\$ 852,872	\$ 847,779	\$ (5,093)
Commissioner of the Revenue	879,876	858,309	855,005	(3,304)
City Council	247,856	246,677	235,918	(10,759)
City Attorney	848,703	846,399	823,104	(23,295)
City Clerk	533,651	530,765	530,669	(96)
Real Estate Valuation	911,747	851,696	851,685	(11)
Board of Equalization	20,944	21,037	18,537	(2,500)
Municipal Auditing	493,374	559,014	534,053	(24,961)
Department of Finance	1,717,236	1,702,123	1,702,037	(86)
Office of Billings and Collections	603,995	571,800	571,760	(40)
Electoral Board	270,987	275,591	270,701	(4,890)
Office of Communications	354,590	350,041	350,035	(6)
City Manager	706,790	796,143	796,136	(7)
Director of General Services	154,250	182,875	182,871	(4)
Human Resources	1,124,853	1,148,238	1,144,309	(3,929)
Occupational Health Clinic	372,319	446,595	446,582	(13)
Department of Management and Budget	749,837	679,412	678,207	(1,205)
Purchasing	279,328	348,851	334,401	(14,450)
Management Services	103,686	102,661	96,085	(6,576)
Environmental Services/Emergency Management	227,809	238,012	235,632	(2,380)
Judicial Administration				
Clerk of Circuit Court	1,203,529	1,204,350	1,203,911	(439)
Juvenile and Domestic Relations Court Services	1,549,201	1,350,440	1,347,400	(3,040)
Juvenile and Domestic Relations Court Clerk	28,015	52,700	48,749	(3,951)
Magistrates Office	2,917	3,017	2,940	(77)
General District Court	33,013	41,013	40,974	(39)
Circuit Court	441,641	474,550	474,549	(1)
Sheriff	2,121,390	2,046,027	2,017,780	(28,247)
Commonwealth's Attorney	1,301,761	1,223,488	1,223,483	(5)
Cost Collection Unit	68,033	65,865	65,260	(605)
Law Library	125,029	126,369	126,367	(2)
Public Safety				
Jail	12,425,468	12,560,239	12,399,178	(161,061)
E911	2,103,986	2,044,421	2,044,345	(76)

See Accompanying Note to Budgetary Comparison Schedule
See Accompanying Independent Auditors' Report

(continued)

CITY OF ROANOKE, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
(UNAUDITED)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance from Final Budget Over/(Under)
E911 - Wireless	254,187	231,678	231,600	(78)
Telecommunications	567,193	579,081	575,193	(3,888)
Fire - Administration	712,398	753,352	752,920	(432)
Fire - Support	681,617	721,621	721,593	(28)
Fire - Operations	12,202,366	13,171,707	13,171,701	(6)
Fire - Airport Rescue	597,318	589,943	589,839	(104)
Emergency Medical Services	2,065,657	1,778,075	1,766,378	(11,697)
Building Services	718,301	764,040	746,790	(17,250)
Outreach Detention	234,315	263,244	245,357	(17,887)
Youth Haven I	570,346	578,403	578,389	(14)
Crisis Intervention	550,269	526,530	524,683	(1,847)
Police - Administration	527,727	412,511	412,481	(30)
Police - Investigation	3,065,357	2,869,506	2,869,499	(7)
Police - Patrol	10,593,297	10,882,290	10,871,357	(10,933)
Police - Services	2,702,574	2,797,003	2,726,900	(70,103)
Police - Training	569,527	700,200	700,187	(13)
Police - Animal Control	826,550	841,737	841,727	(10)
Public Works				
Custodial Services	1,149,350	1,069,356	1,061,597	(7,759)
Building Maintenance	3,488,840	3,707,151	3,698,866	(8,285)
Director of Public Works	218,055	232,945	231,454	(1,491)
Transportation - Streets and Traffic	4,177,561	4,560,568	4,500,294	(60,274)
Transportation - Paving Program	2,228,952	2,829,776	2,829,766	(10)
Transportation - Snow Removal	258,618	529,521	519,160	(10,361)
Transportation - Street Lighting	944,963	1,002,192	931,629	(70,563)
Transportation - Engineering and Operations	1,464,549	1,509,635	1,487,891	(21,744)
Solid Waste Management	5,989,807	6,241,751	6,241,748	(3)
Engineering	1,600,850	1,649,638	1,624,688	(24,950)
Health and Welfare				
Human Services Support	119,602	133,255	130,944	(2,311)
Health Department	1,178,901	1,178,901	1,178,901	-
Blue Ridge Behavioral Health Care	425,969	425,969	425,969	-
Human Services Committee	550,962	550,962	550,962	-
Total Action Against Poverty	224,742	224,742	224,742	-
Social Services - Administration	1,777,122	1,268,405	1,260,092	(8,313)
Income Maintenance	4,874,216	5,037,529	5,006,939	(30,590)
Social Services - Services	10,040,302	11,855,395	11,431,851	(423,544)
Social Services - RevenueMax	50,924	49,808	49,554	(254)
Employment Services	1,227,961	1,208,122	1,187,680	(20,442)
Foster Parent Training	115,545	102,158	97,082	(5,076)
VISSTA	338,340	358,988	313,489	(45,499)
Hospitalization Program	78,335	81,162	81,161	(1)
Comprehensive Services Act	9,011,779	10,650,000	10,363,263	(286,737)
Comprehensive Services Act - Administration	66,556	75,931	71,474	(4,457)
Parks, Recreation and Cultural				
Roanoke Arts Commission	328,932	350,932	350,932	-
Recreation	1,406,213	1,359,630	1,341,333	(18,297)
Parks	2,935,711	3,050,206	3,050,140	(66)
Parks & Recreation - Administration	1,019,816	1,030,471	996,195	(34,276)
Parks & Recreation - Youth Services	304,087	355,269	319,835	(35,434)
Libraries	2,533,893	2,503,398	2,503,391	(7)

See Accompanying Note to Budgetary Comparison Schedule
See Accompanying Independent Auditors' Report

(continued)

**CITY OF ROANOKE, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance from Final Budget Over/(Under)
Community Development				
Memberships and Affiliations	2,318,582	2,585,484	2,585,481	(3)
Economic Development	675,450	629,460	629,442	(18)
Planning, Building and Development	1,005,119	968,896	957,307	(11,589)
Neighborhood Partnership	140,888	134,848	117,868	(16,980)
Citizens Service Center	96,952	64,433	63,952	(481)
Housing and Neighborhood Services	1,118,395	1,075,007	1,071,796	(3,211)
Virginia Cooperative Extension	72,910	112,028	103,608	(8,420)
Nondepartmental				
Residual Fringe Benefits	2,085,309	-	-	-
Transfers to Other Funds	6,935,214	10,475,572	10,461,859	(13,713)
Transfers to Debt Service Fund	15,080,241	15,510,670	15,509,082	(1,588)
Transfers to Component Unit	51,889,926	52,676,279	52,676,279	-
Miscellaneous	100,000	139,407	125,801	(13,606)
Personnel Lapse	(1,670,243)	-	-	-
Contingency	1,515,617	90,404	-	(90,404)
Total Charges to Appropriations	211,776,000	220,908,765	219,192,533	(1,716,232)
Budgetary Fund Balance, June 30	\$ 4,498,005	\$ 15,499,527	\$ 19,660,766	\$ 4,161,239

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/Inflows of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 238,853,299
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes (Exhibit E).	(4,498,005)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes (Exhibit E).	(15,501,876)
Total general fund revenues as reported on the statement of revenues, expenditures, and changes in fund balances (Exhibit E).	<u>\$ 218,853,418</u>

Uses/Outflows of Resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 219,192,533
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes (Exhibit E).	(25,970,941)
Encumbrances for goods and services ordered but not received are reported in the year the orders are placed for budgetary purposes, but are reported in the year goods and services are received for GAAP purposes (Exhibit C).	(1,389,488)
Total general fund expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (Exhibit E).	<u>\$ 191,832,104</u>

**CITY OF ROANOKE, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

(2) Schedule of Funding Progress

Virginia Retirement System Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a) / (c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Funded Ratio Assets as a % of AAL	Annual Covered Payroll	UAAL (OAAL) as a Percentage of Covered Payroll
6/30/2004	\$27,642,697	\$32,373,471	\$4,730,774	85.39%	\$7,631,051	61.99%
6/30/2003	27,059,171	29,452,717	2,393,546	91.87%	7,465,629	32.06%
6/30/2002	26,478,457	26,659,102	180,645	99.32%	7,417,579	2.44%
6/30/2001	25,213,155	25,095,233	(117,922)	100.47%	6,978,095	(1.69%)
6/30/2000	22,713,555	22,883,062	169,507	99.26%	6,563,303	2.58%
6/30/1999	19,093,796	18,641,690	(452,106)	102.43%	6,178,506	(7.32%)

**CITY OF ROANOKE, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

(3) Note to Budgetary Comparison Schedule

(A) Budgets and Budgetary Accounting

The City adheres to the following procedures in establishing the budgetary data reflected in the Budgetary Comparison Schedule located in the Required Supplementary Information:

1. **Proposal** – At least sixty days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. **Projects and Grants** – The capital projects budget is prepared on a project length basis under which the total outlay for each project is estimated for the length of the project. The Special Revenue Fund budget is adopted on a grant length basis as grants are received by the City. Grant budgets are not legally enacted on an annual period basis; therefore, a budgetary comparison statement is not presented for the Special Revenue Fund.
3. **Adoption** – Public hearings are conducted to obtain citizen comments on the proposed budget. Prior to May 15, the budget is legally adopted at the departmental level through passage of an appropriation ordinance by City Council.
4. **Amendment** – The City Manager is authorized to transfer amounts not exceeding \$75,000 between departments and any amount within a given department. All other transfers or supplemental appropriations must be approved by City Council. During the year, \$9,132,292 in supplemental appropriations were approved by City Council. These amendments consisted primarily of appropriations of prior year encumbrances, the appropriation of designated fund balance, and the appropriation of additional intergovernmental grants received during the year.
5. **Integration** – Formal budgetary integration is employed as a management control device during the year for the General and Capital Projects Funds. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through budgeted transfers from the General Fund to the Debt Service Fund for debt payments.
6. **Legal Compliance** – Actual expenditures and operating transfers out may not legally exceed budget appropriations for each department. City Council legally adopts an annual budget for the General Fund. Its budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America except for the recognition of encumbrances, the classification of certain transfers as expenditures, and the consideration of beginning fund balance as a budgetary resource. A reconciliation of the actual General Fund uses of financial resources presented in accordance with generally accepted accounting principles is presented as part of the Budgetary Comparison Schedule located in the Required Supplementary Information.

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of services provided by one department to other departments of the City on a cost reimbursement basis. The following activities of the City are reported as Internal Service Funds:

<i>Department of Technology</i>	<i>Implementation and maintenance of data processing systems and providing workstation support</i>
<i>Fleet Management</i>	<i>Ownership and Maintenance of City vehicle fleet and related supplies</i>
<i>Risk Management</i>	<i>Financing of property, workers' compensation, employee medical, auto and general liability insurance coverage</i>

AGENCY FUND

*An Agency Fund is used to account for the assets held on behalf of the **Hotel Roanoke Conference Center Commission (HRCCC)**. The HRCCC is a joint venture of the City of Roanoke and Virginia Tech to operate the Hotel Roanoke and Conference Center facility.*

CITY OF ROANOKE, VIRGINIA
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 JUNE 30, 2005

	Department of Technology	Fleet Management	Risk Management	Total Internal Service Funds
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 118,298	\$ 140,481	\$ 1,394,763	\$ 1,653,542
Investments	3,172,400	-	10,724,484	13,896,884
Due from Other Governments	3,707	366	9,030	13,103
Due from Other Funds	366,156	347,313	85,791	799,260
Due from Component Unit	-	6,952	-	6,952
Accounts Receivable	28,135	305	-	28,440
Inventory	-	173,992	-	173,992
Other Assets	-	-	133,232	133,232
Total Current Assets	3,688,696	669,409	12,347,300	16,705,405
Capital Assets:				
Equipment and Other Capital Assets	10,831,906	26,766,167	-	37,598,073
Construction in Progress	6,484,970	-	-	6,484,970
Less Accumulated Depreciation	(4,522,599)	(17,976,537)	-	(22,499,136)
Capital Assets, Net	12,794,277	8,789,630	-	21,583,907
Total Assets	\$ 16,482,973	\$ 9,459,039	\$ 12,347,300	\$ 38,289,312
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Expenses	247,849	186,655	21,535	456,039
Accrued Interest Payable	-	15,647	-	15,647
Due to Other Funds	96,027	59,268	7,653	162,948
Long-Term Liabilities Due Within One Year	146,986	606,744	2,975,350	3,729,080
Total Current Liabilities	490,862	868,314	3,004,538	4,363,714
Long-Term Liabilities:				
Compensated Absences Payable	188,761	92,578	11,062	292,401
Claims Payable	-	-	7,410,448	7,410,448
Capital Lease Liability	-	778,691	-	778,691
Less Current Maturities	(146,986)	(606,744)	(2,975,350)	(3,729,080)
Total Long-Term Liabilities	41,775	264,525	4,446,160	4,752,460
Total Liabilities	\$ 532,637	\$ 1,132,839	\$ 7,450,698	\$ 9,116,174
Net Assets				
Invested in Capital Assets, Net of Related Debt	12,794,277	8,010,939	-	20,805,216
Restricted	276,133	-	-	276,133
Unrestricted	2,879,926	315,261	4,896,602	8,091,789
Total Net Assets	\$ 15,950,336	\$ 8,326,200	\$ 4,896,602	\$ 29,173,138

CITY OF ROANOKE, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Department of Technology	Fleet Management	Risk Management	Total Internal Service Funds
<u>Operating Revenues</u>				
Charges for Services	\$ 4,767,040	\$ 4,846,014	\$ 11,667,107	\$ 21,280,161
Total Operating Revenues	4,767,040	4,846,014	11,667,107	21,280,161
<u>Operating Expenses</u>				
Personal Services	2,468,905	1,381,472	178,456	4,028,833
Other Services and Charges	1,128,840	135,924	11,594,633	12,859,397
Materials and Supplies	1,148,728	1,756,444	784,922	3,690,094
Depreciation	2,132,592	2,001,733	-	4,134,325
Total Operating Expenses	6,879,065	5,275,573	12,558,011	24,712,649
Operating Loss	(2,112,025)	(429,559)	(890,904)	(3,432,488)
<u>Nonoperating Revenues (Expenses)</u>				
Net Gain or (Loss) on Disposal of Assets	(118)	53,895	-	53,777
Investment Income	62,642	1,314	220,105	284,061
Interest Expense	-	(36,636)	-	(36,636)
Net Nonoperating Revenues	62,524	18,573	220,105	301,202
Loss Before Transfers and Contributions	(2,049,501)	(410,986)	(670,799)	(3,131,286)
<u>Transfers and Contributions</u>				
Capital Contributions	300,000	31,529	-	331,529
Transfers In	1,092,680	719,777	250,000	2,062,457
Transfers Out	-	(44,595)	-	(44,595)
Net Transfers and Contributions	1,392,680	706,711	250,000	2,349,391
Change in Net Assets	(656,821)	295,725	(420,799)	(781,895)
Net Assets - Beginning of Year	16,607,157	8,030,475	5,317,401	29,955,033
Net Assets - End of Year	\$ 15,950,336	\$ 8,326,200	\$ 4,896,602	\$ 29,173,138

CITY OF ROANOKE, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Department of Technology	Fleet Management	Risk Management	Total Internal Service Funds
Cash Flows From Operating Activities:				
Cash Received from Customers	\$ 5,583,751	\$ 4,653,951	\$ 12,361,757	\$ 22,599,459
Cash Payments to Suppliers for Goods and Services	(2,234,218)	(2,547,860)	(701,369)	(5,483,447)
Cash Payments to Other Funds for Interfund Services	(14,710)	(119,576)	(458,107)	(592,393)
Cash Payments to Employees	(2,432,768)	(1,373,186)	(178,878)	(3,984,832)
Cash Payments for Claims	-	-	(11,723,717)	(11,723,717)
Net Cash Provided by (Used for) Operating Activities	902,055	613,329	(700,314)	815,070
Cash Flows From Noncapital Financing Activities:				
Transfers In	1,092,680	719,777	250,000	2,062,457
Transfers Out	-	(44,595)	-	(44,595)
Net Cash Provided by Noncapital Financing Activities	1,092,680	675,182	250,000	2,017,862
Cash Flows From Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	(2,583,203)	(1,152,796)	-	(3,735,999)
Proceeds from Sale of Capital Assets	-	75,967	-	75,967
Principal Paid on Bonds and Capital Lease Obligations	-	(510,384)	-	(510,384)
Interest Paid on Bonds and Capital Leases	-	(47,211)	-	(47,211)
Capital Contributions	300,000	31,529	-	331,529
Net Cash Used for Capital and Related Financing Activities	(2,283,203)	(1,602,895)	-	(3,886,098)
Cash Flows From Investing Activities:				
Interest Received	58,062	1,086	203,079	262,227
Purchase of Investments	(3,172,400)	-	(10,724,484)	(13,896,884)
Cash Provided by Investing Activities	(3,114,338)	1,086	(10,521,405)	(13,634,657)
Net Decrease in Cash and Cash Equivalents	(3,402,806)	(313,298)	(10,971,719)	(14,687,823)
Cash and Cash Equivalents at July 1	3,521,104	453,779	12,366,482	16,341,365
Cash and Cash Equivalents at June 30	\$ 118,298	\$ 140,481	\$ 1,394,763	\$ 1,653,542
Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities:				
Operating Loss	\$ (2,112,025)	\$ (429,559)	\$ (890,904)	\$ (3,432,488)
Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	2,132,592	2,001,733	-	4,134,325
Changes in Assets and Liabilities:				
Increase in Due From Other Governments	(2,527)	(366)	(9,030)	(11,923)
(Increase) Decrease in Due From Other Funds	844,806	(189,965)	703,680	1,358,521
Increase in Due From Component Unit	-	(1,427)	-	(1,427)
Increase in Accounts Receivable	(25,568)	(305)	-	(25,873)
Increase in Inventory	-	(2,028)	-	(2,028)
Decrease in Other Assets	-	-	23,233	23,233
Increase (Decrease) in Accounts Payable and Accrued Expenses	37,359	(743,721)	16,190	(690,172)
Increase (Decrease) in Due to Other Funds	3,970	(24,482)	4,493	(16,019)
Increase (Decrease) in Compensated Absences Payable	23,448	3,449	(1,478)	25,419
Decrease in Claims Payable	-	-	(546,498)	(546,498)
Total Adjustments	3,014,080	1,042,888	190,590	4,247,558
Net Cash Provided by (Used for) Operating Activities	\$ 902,055	\$ 613,329	\$ (700,314)	\$ 815,070

Noncash Capital and Financing Activities:

Department of Technology Fund noncash activities in fiscal year 2005 consisted of fixed asset acquisitions of \$99,925 recorded as accounts payable at June 30, 2005.

CITY OF ROANOKE, VIRGINIA
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 JUNE 30, 2005

	Hotel Roanoke Conference Center Commission
<u>Assets</u>	
Cash and Cash Equivalents	\$ 639,620
Investments	3,466,099
Accrued Interest Receivable	35,102
Total Assets	\$ 4,140,821
<u>Liabilities</u>	
Due to Other Governments	\$ 4,140,821
Total Liabilities	\$ 4,140,821

CITY OF ROANOKE, VIRGINIA
 STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<u>Assets</u>				
Cash and Cash Equivalents	\$ 3,771,749	\$ 548,485	\$ 3,680,614	\$ 639,620
Investments	-	3,466,099	-	3,466,099
Accrued Interest Receivable	-	35,102	-	35,102
Due from Other Governments	8,602	267,233	275,835	-
Total Assets	\$ 3,780,351	\$ 4,316,919	\$ 3,956,449	\$ 4,140,821
<u>Liabilities</u>				
Due to Other Governments	\$ 3,780,351	\$ 4,316,919	\$ 3,956,449	\$ 4,140,821
Total Liabilities	\$ 3,780,351	\$ 4,316,919	\$ 3,956,449	\$ 4,140,821

STATISTICAL SECTION

Table 1
Unaudited

CITY OF ROANOKE, VIRGINIA
GENERAL FUND REVENUES BY SOURCE
LAST TEN FISCAL YEARS

	2004-05	2003-04 (2)	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96
Revenues:										
Local Taxes (1)	\$145,738,157	\$138,027,923	\$131,372,049	\$129,553,942	\$126,439,432	\$123,243,130	\$119,781,374	\$116,234,080	\$113,654,246	\$109,327,584
Permits, Fees, & Licenses	1,275,026	1,076,606	909,669	1,076,603	840,520	827,219	750,752	722,222	680,100	649,546
Fines and Forfeitures	1,354,775	1,365,502	1,244,283	1,103,113	818,982	923,556	904,067	943,559	990,906	903,916
Rents and Interest	796,688	682,798	1,114,804	1,100,101	1,058,017	1,188,918	981,664	1,205,854	1,037,250	1,148,960
Intergovernmental (1)	57,980,957	54,469,375	52,891,983	53,361,444	51,494,253	49,258,020	44,138,262	38,039,443	36,626,633	33,434,008
Charges for Services	11,114,029	11,544,955	6,657,533	6,073,913	5,709,059	5,599,880	5,551,911	5,369,683	5,008,863	4,761,141
Miscellaneous	593,786	409,829	451,512	271,233	281,678	297,103	354,518	278,198	487,418	313,991
Transfers:										
Debt Service	15,500,000	-	-	-	-	-	-	-	-	-
Capital Projects	1,876	-	-	-	-	-	-	-	-	-
Proprietary	-	-	349,445	328,876	-	-	-	-	-	-
Total Revenues										
and Transfers from										
Other Funds (2)	\$234,355,294	\$207,526,968	\$194,991,278	\$192,869,225	\$186,641,941	\$181,337,826	\$172,462,548	\$162,793,039	\$158,485,416	\$150,539,146

(1) In fiscal year 1999, the State began the Personal Property Tax Relief Act. The State share of personal property is classified as intergovernmental.

(2) Effective fiscal year 2004, all fees and recovered costs are reported as charges for services revenues. In prior years, some were offset against department expenditures.

Table 2
Unaudited

CITY OF ROANOKE, VIRGINIA
GENERAL FUND EXPENDITURES AND TRANSFERS BY FUNCTION
LAST TEN FISCAL YEARS

	2004-05	2003-04 (1)	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96
Expenditures:										
General Government	\$11,457,219	\$11,679,508	\$11,638,167	\$11,544,730	\$11,670,266	\$11,088,959	\$11,105,929	\$10,448,955	\$10,011,252	\$10,095,409
Judicial Administration	6,505,813	6,167,192	5,982,484	5,744,286	5,523,902	4,520,239	4,321,274	4,237,942	3,895,334	3,821,723
Public Safety	52,652,595	49,472,103	44,908,836	45,261,524	44,029,624	43,550,133	39,151,476	37,547,626	35,907,383	34,985,635
Public Works	22,229,895	24,688,073	23,184,404	23,336,521	22,894,595	21,980,873	24,161,473	25,153,556	22,428,196	22,434,846
Health and Welfare	32,365,693	29,547,355	27,528,710	26,830,719	24,992,857	25,463,295	25,045,201	21,716,406	20,975,329	19,481,663
Parks, Recreation and Cultural	8,364,754	5,131,486	4,542,865	4,896,025	4,645,232	4,471,440	4,290,781	4,251,247	3,914,258	3,848,786
Community Development	5,454,055	6,010,405	5,378,400	5,001,639	3,983,755	3,281,671	2,703,133	2,829,785	2,730,491	2,571,034
Education	52,676,279	49,520,072	47,408,556	46,617,823	46,084,764	43,801,361	41,507,690	41,475,678	39,840,140	38,140,039
Miscellaneous	125,801	90,903	73,633	68,037	13,075	19,402	6,932	36,044	35,537	222,497
Transfers:										
Debt Service	15,509,082	15,270,488	16,847,042	12,266,899	12,109,799	12,109,851	11,075,927	9,510,800	9,310,800	8,340,800
Special Revenue	227,101	147,714	588,618	463,432	651,336	785,467	696,587	591,015	674,316	328,727
Capital Projects	5,296,390	4,914,289	4,945,967	6,439,336	6,834,318	4,680,598	4,115,836	4,330,766	2,504,062	2,455,349
Proprietary	4,938,368	6,944,252	5,171,174	6,689,602	3,142,299	3,316,128	3,866,454	4,585,676	4,292,422	3,834,477
Total Expenditures										
and Transfers to										
Other Funds (1)	\$217,803,045	\$209,583,840	\$198,198,856	\$195,160,573	\$186,575,822	\$179,069,417	\$172,048,693	\$166,715,496	\$156,519,520	\$150,560,985

(1) Effective fiscal year 2004, the City began reporting all fees and recovered costs as charges for services revenues. In prior years, some were offset against department expenditures.

The Public Safety, Health and Welfare, and Parks, Recreation and Cultural categories are the ones most significantly impacted by this change in reporting.

Table 3
Unaudited

CITY OF ROANOKE, VIRGINIA
LOCAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS

	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96
General Property Tax (1)	\$ 81,199,730	\$ 75,346,292	\$ 71,849,116	\$ 69,908,899	\$ 67,776,339	\$ 67,491,996	\$ 66,635,642	\$ 65,673,171	\$ 64,087,188	\$ 61,192,265
Sales Tax	19,663,577	19,225,559	17,466,450	17,489,436	17,676,762	17,607,676	17,176,569	15,915,189	15,840,892	15,160,098
Utility Consumer Tax	13,349,039	13,321,752	13,248,053	13,097,155	12,633,933	11,719,741	11,088,016	11,046,862	10,568,373	10,810,173
Cigarette Tax	1,889,419	1,895,533	1,920,939	2,036,988	1,403,614	1,292,622	1,322,808	1,430,004	1,545,214	1,561,636
Recordation and Probate Tax	1,116,447	835,561	734,345	621,691	558,348	538,776	557,276	525,860	437,895	353,086
Business, Professional, and Occupational License Tax	11,843,734	11,330,195	11,086,185	11,288,675	11,444,528	10,537,473	10,080,975	9,638,581	9,571,621	9,202,617
Transient Room Tax	2,250,249	2,232,754	2,101,878	2,045,875	1,761,393	1,676,143	1,463,519	1,412,811	1,344,820	1,266,746
Admissions Tax	448,312	530,712	504,298	400,211	355,570	242,194	256,072	278,081	262,018	228,662
Telephone Surcharge - E911 Tax	1,603,863	1,340,847	1,180,840	1,137,606	1,166,368	1,154,101	1,090,634	942,525	696,851	551,614
Motor Vehicle License Tax	1,761,745	1,736,858	1,733,605	1,766,599	1,770,243	1,712,232	1,739,085	1,692,957	1,714,153	1,706,947
Franchise Tax	1,500,624	1,554,297	1,491,601	1,657,992	1,560,424	1,265,285	969,099	913,210	807,031	713,408
Prepared Food and Beverage Tax	7,995,551	7,690,950	7,247,472	7,086,162	6,776,531	6,546,125	6,138,177	5,975,419	5,827,569	5,541,147
Bank Stock Tax	1,115,867	986,613	807,267	1,016,653	1,555,379	1,458,766	1,263,502	789,410	950,621	1,039,185
Total Local Taxes	\$ 145,738,157	\$ 138,027,923	\$ 131,372,049	\$ 129,553,942	\$ 126,439,432	\$ 123,243,130	\$ 119,781,374	\$ 116,234,080	\$ 113,654,246	\$ 109,327,584

(1) In fiscal year 1999, the State began the Personal Property Tax Relief act. The state share of personal property is classified as intergovernmental.

Table 4
Unaudited

CITY OF ROANOKE, VIRGINIA
GENERAL PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS

	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96
Total Tax Levies	\$ 88,719,548	\$ 82,947,318	\$ 78,984,813	\$ 76,830,266	\$ 76,063,428	\$ 73,493,399	\$ 70,159,067	\$ 66,827,109	\$ 66,282,390	\$ 62,745,572
Current Tax Collections	78,489,950	72,835,920	68,960,191	67,253,815	65,058,343	65,220,814	64,323,520	63,697,526	62,066,495	59,566,959
Current Tax Collections - State Share (1)	8,147,634	7,551,379	7,920,717	7,634,673	7,718,287	4,967,361	2,988,231	-	-	-
Delinquent Tax Collections	2,709,780	2,510,372	2,888,925	2,655,084	2,717,996	2,271,182	2,312,122	1,975,645	2,020,693	1,625,306
Delinquent Tax Collections - State Share (1)	178,186	138,153	123,180	140,426	44,729	17,379	-	-	-	-
Total Tax Collections	\$ 89,525,550	\$ 83,035,824	\$ 79,893,013	\$ 77,683,998	\$ 75,539,355	\$ 72,476,686	\$ 69,623,873	\$ 65,673,171	\$ 64,087,188	\$ 61,192,265
Current Tax Collections As Percent of Levies	97.65%	96.91%	97.34%	97.47%	95.68%	95.50%	95.94%	95.32%	93.64%	94.93%
Total Tax Collections As Percent of Levies (2)	100.91%	100.11%	101.15%	101.11%	99.31%	98.62%	99.24%	98.27%	96.69%	97.52%

(1) In fiscal year 1999, the State began the Personal Property Tax Relief Act. The state share of personal property is classified as intergovernmental.

(2) Total tax collections as percent of levies may be greater than 100% due to delinquent tax collections in a given fiscal year for prior fiscal year levies.

Table 5
Unaudited

CITY OF ROANOKE, VIRGINIA
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN YEARS

Year	REAL PROPERTY				PERSONAL PROPERTY				PUBLIC SERVICE CORPORATIONS				Total Assessed Value
	Assessed Value	Percentage Growth	Estimated Actual Value	Assessment Ratio	Assessed Value	Percentage Growth	Estimated Actual Value	Assessment Ratio	Assessed Value	Percentage Growth	Estimated Actual Value	Assessment Ratio	
1996	3,098,947,215	2.24%	3,098,947,215	1.00	601,120,232	10.93%	1,001,867,053	0.60	274,170,157	6.52%	288,296,695	0.951	3,974,237,604
1997	3,242,372,927	4.63%	3,242,372,927	1.00	630,035,420	4.81%	1,050,059,033	0.60	266,770,541	(2.70%)	288,089,137	0.926	4,139,178,888
1998	3,363,258,137	3.73%	3,363,258,137	1.00	634,338,609	0.68%	1,057,231,015	0.60	262,233,463	(1.70%)	276,326,094	0.949	4,259,830,209
1999	3,569,735,816	6.14%	3,569,735,816	1.00	664,808,637	4.80%	1,108,014,395	0.60	277,115,700	5.68%	295,432,516	0.938	4,511,660,153
2000	3,710,187,437	3.93%	3,710,187,437	1.00	715,763,594	7.66%	1,192,939,323	0.60	304,500,512	9.88%	320,864,607	0.949	4,730,451,543
2001	3,843,131,277	3.58%	3,843,131,277	1.00	737,575,710	3.05%	1,229,292,850	0.60	339,256,291	11.41%	359,762,769	0.943	4,919,963,278
2002	4,053,218,187	5.47%	4,053,218,187	1.00	688,540,754	(6.65%)	1,147,567,923	0.60	331,442,235	(2.30%)	345,950,183	0.958	5,073,201,176
2003	4,251,342,652	4.89%	4,251,342,652	1.00	685,231,130	(0.48%)	1,142,051,883	0.60	320,712,924	(3.24%)	328,933,905	0.975	5,257,286,706
2004	4,558,900,600	7.23%	4,558,900,600	1.00	675,390,754	(1.44%)	1,125,651,256	0.60	372,880,650	16.27%	378,299,578	0.986	5,607,172,004
2005	4,912,403,589	7.75%	4,912,403,589	1.00	731,086,348	8.25%	1,218,477,246	0.60	333,486,044	(10.56%)	338,499,005	0.985	5,976,975,981

Table 6
Unaudited

CITY OF ROANOKE, VIRGINIA
PROPERTY TAX RATES AND TAX LEVIES
LAST TEN YEARS

Year	REAL PROPERTY		PERSONAL PROPERTY		PUBLIC SERVICE CORPORATIONS	
	Tax Rate Per \$100	Levy	Tax Rate Per \$100	Levy	Tax Rate Per \$100	Levy
1996	1.23	38,600,876	3.45	20,738,648	1.23	3,406,048
1997	1.23	41,199,303	3.45	21,736,222	1.23	3,346,865
1998	1.225 (1)	41,678,450	3.45	21,884,682	1.225 (1)	3,263,977
1999	1.22	43,821,177	3.45	22,935,898 (3)	1.22	3,401,992
2000	1.215 (2)	45,092,511	3.45	24,693,844 (3)	1.215 (2)	3,707,044
2001	1.21	46,502,137	3.45	25,446,362 (3)	1.21	4,114,929
2002	1.21	49,043,478	3.45	23,754,656 (3)	1.21	4,032,132
2003	1.21	51,440,874	3.45	23,640,474 (3)	1.21	3,903,465
2004	1.21	55,162,380	3.45	23,300,981 (3)	1.21	4,483,957
2005	1.21	59,439,602	3.45	25,222,479 (3)	1.21	4,057,467
					Total Tax Levies	
					62,745,572	
					66,282,390	
					66,827,109	
					70,159,067	
					73,493,399	
					76,063,428	
					76,830,266	
					78,984,813	
					82,947,318	
					88,719,548	

- (1) The tax rate was \$1.23 from July 1, 1997 to December 31, 1997. Effective January 1, 1998, the rate became \$1.22.
(2) The tax rate was \$1.22 from July 1, 1999 to December 31, 1999. Effective January 1, 2000, the rate became \$1.21.
(3) In fiscal year 1999, the State initiated the Personal Property Tax Relief Act. The levy includes the state portion.

Table 7
Unaudited

CITY OF ROANOKE, VIRGINIA
RATIO OF GENERAL BONDED DEBT TO
TOTAL ASSESSED VALUE AND BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

Fiscal Year	Population (A)	Total Assessed Value	Gross Bonded Debt	Bonds Supported by Enterprise Funds (D)	Bonds Supported by Western Virginia Water Authority	Amount Available in Debt Service Fund	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1996	95,479	3,974,237,604	149,450,742	48,695,000	-	8,797,456	91,958,286	2.31%	963.13
1997	94,931	4,139,178,888	146,159,015	46,725,000	-	9,148,331	90,285,684	2.18%	951.07
1998	93,797	4,259,830,209	157,555,231	44,806,346	-	11,336,503	101,412,382	2.38%	1,081.19
1999	93,357	4,511,660,153	157,175,592	43,175,028	-	11,498,954	102,501,610	2.27%	1,097.95
2000	94,911 (B)	4,730,451,543	193,100,761	41,118,710	-	13,134,073	138,847,978	2.94%	1,462.93
2001	95,000	4,919,963,278	191,284,376	39,027,391	-	13,130,315	139,126,670	2.83%	1,464.49
2002	94,600	5,073,201,176	242,386,235	47,001,072	-	14,289,750	181,095,413	3.57%	1,914.33
2003	93,100	5,257,286,706	228,050,952	44,517,751	-	14,436,613	169,096,588	3.22%	1,816.29
2004	92,600 (est.)	5,607,172,004	223,671,734	41,504,678	-	15,061,934	167,105,122	2.98%	1,804.59
2005	92,600 (est.)	5,976,975,981	256,369,208	7,818,130	33,435,000	988,465 (C)	214,127,613	3.58%	2,312.39

Source - (A) Weldon - Cooper Center for Public Service

(B) U.S. Census

(C) In FY05, there was a \$15.5 million transfer of fund balance from the Debt Service Fund to the General Fund to establish a Budget Stabilization Reserve.

(D) FY04 and FY05 figures exclude Civic Facilities outstanding balances.

Table 8
Unaudited

**CITY OF ROANOKE, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2005**

The Charter of the City of Roanoke limits the Legal Debt to 10% of the Assessed Valuation of Real Estate within the City limits. The City has no overlapping debt.

Assessed Value of Real Estate, 2005		\$ 4,912,403,589
Legal Debt Limit, 10% of \$4,912,403,589		<u>491,240,359</u>
Debt applicable to limitation:		
Total Bonded Debt	\$ 256,369,208	
Less: Available in Debt Service Fund	(988,465)	
Enterprise Fund Supported Debt (A)	(7,818,130)	
Western Virginia Water Authority Supported Debt	<u>(33,435,000)</u>	214,127,613
Legal Debt Margin		<u>\$ 277,112,746</u>

(A) Excludes Civic Facilities outstanding balances.

Table 9
Unaudited

**CITY OF ROANOKE
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL LONG-TERM DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS**

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures (1)	Percent of Debt Service to General Expenditures
1995-96	5,462,514	4,043,906	9,506,420	185,013,856	5.14%
1996-97	5,799,589	5,718,301	11,517,890	192,556,708	5.98%
1997-98	5,590,956	5,043,330	10,634,286	204,580,854	5.20%
1998-99	7,425,623	6,205,698	13,631,321	213,135,162	6.40%
1999-00	7,292,303	6,411,446	13,703,749	223,621,661	6.13%
2000-01	9,261,800	7,776,087	17,037,887	231,372,360	7.36%
2001-02	9,166,242	7,670,082	16,836,324	246,048,365	6.84%
2002-03	12,283,145	9,856,930	22,140,075	252,841,855	8.76%
2003-04	11,470,345	7,991,906	19,462,251	268,406,972	7.25%
2004-05	12,508,849	7,899,346	20,408,195	284,024,496	7.19%

(1) Includes expenditures of the General Funds of the City and School Board less the transfer from the General Fund to the School Board.

Table 10
Unaudited

CITY OF ROANOKE, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Per Capita Income (2)	School Enrollment (3)	Local Unemployment Rate (4)	National Unemployment Rate (5)
1995-96	95,479	22,169	13,127	3.5%	5.5%
1996-97	94,931	22,825	13,215	3.6%	4.7%
1997-98	93,797	24,653	13,231	2.7%	4.7%
1998-99	93,357	25,600	13,200	2.6%	4.2%
1999-00	94,911 (6)	26,000 (est.)	13,175	2.2%	4.0%
2000-01	95,000	26,200 (est.)	13,251	3.6%	4.8%
2001-02	94,600	26,948 (est.)	13,263	3.4%	4.8%
2002-03	93,100	27,898 (est.)	13,004	3.8%	6.3%
2003-04	92,600 (est.)	27,033 (est.)	12,861	3.0%	5.8%
2004-05	92,600 (est.)	28,814 (est.)	12,712	3.7%	5.2%

(1) Source: Weldon - Cooper Center for Public Service

(2) Source: Bureau of Economic Analysis

(3) Source: Roanoke City School Board

(4) Source: Virginia Employment Commission (Roanoke Metropolitan Statistical Area)

(5) Source: Bureau of Labor Statistics and Virginia Employment Commission

(6) Source: U.S. Census

Table 11
Unaudited

CITY OF ROANOKE, VIRGINIA
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS

Fiscal Year	Assessed Value	COMMERCIAL CONSTRUCTION (1)		RESIDENTIAL CONSTRUCTION (1)		BANK DEPOSITS (2)
		Number of Permits	Value	Number of Permits	Value	
1995-96	3,098,947,215	578	28,274,653	1,590	21,936,194	2,359,307,000 (2)
1996-97	3,242,372,927	580	42,373,274	1,678	18,729,936	2,304,739,000 (2)
1997-98	3,363,258,137	569	49,600,839	1,652	28,920,020	2,849,980,000 (3)
1998-99	3,569,735,816	567	56,706,299	1,543	24,952,546	3,051,667,000 (3)
1999-00	3,710,187,437	575	89,654,863	1,363	31,155,220	3,466,286,000 (3)
2000-01	3,843,131,277	572	57,716,867	988	45,045,159	2,087,558,000 (3)
2001-02	4,053,218,187	499	64,101,308	875	36,855,003	2,186,679,000 (3)
2002-03	4,251,342,652	437	60,291,138	730	21,844,483	2,186,679,000 (est)
2003-04	4,558,900,600	871	57,922,598	303	13,331,017	2,111,369,000 (est)
2004-05	4,912,403,589	497	111,829,238	610	23,936,990	2,177,708,000 (est)

(1) Source: City of Roanoke, Department of Planning, Building and Economic Development

(2) Source: Research Library, Federal Reserve Bank of Richmond

(3) Source: Federal Deposit Insurance Corp

Table 12
Unaudited

**CITY OF ROANOKE, VIRGINIA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2005**

<u>Taxpayer</u>	<u>Description</u>	<u>2005 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Appalachian Power Co.	Public Utility	\$ 86,105,642	1.44%
Verizon	Communications	85,902,271	1.44%
Norfolk Southern Railway	Transportation	76,124,656	1.27%
Carilion	Healthcare Provider	56,814,598	0.95%
Valley View Mall, LLC	Shopping Mall	53,091,185	0.89%
Faison Roanoke Office	Office Building	27,959,900	0.47%
Johnson and Johnson	Lens Manufacturing	25,786,488	0.43%
Roanoke Gas Company	Public Utility	25,681,928	0.43%
Times World Corporation	Newspaper	22,978,837	0.38%
Maple Leaf Bakery	Bakery	21,503,487	0.36%
		<u>\$ 481,948,992</u>	<u>8.06%</u>

Table 13
Unaudited

**CITY OF ROANOKE, VIRGINIA
TAXABLE RETAIL SALES
LAST TEN CALENDAR YEARS**

<u>Calendar Year</u>	<u>Total Retail Sales (1)</u>
1996	1,399,471,748
1997	1,430,719,230
1998	1,485,135,075
1999	1,563,514,749
2000	1,595,600,205
2001	1,578,043,491
2002	1,588,424,788
2003	1,621,479,275
2004	1,712,570,484
2005 through June.	833,791,364

(1) Source: State Department of Taxation. Data excludes prescription drug sales.

Table 14
Unaudited

CITY OF ROANOKE, VIRGINIA
MISCELLANEOUS DATA

MISCELLANEOUS STATISTICS:

Date of Incorporation	1884
Form of Government	Council/Manager
Area	43 Square Miles
Miles of Streets	997 Lane Miles
Street Lights	9,758
Full Time City Employees	1,733
Full Time School Board Employees	2,316
Registered Voters	55,876

POLICE PROTECTION:

Police Officers	249
Vehicular Units	156
Traffic Summons	7,396
Assistance Call Responses	88,991

FIRE/EMERGENCY MEDICAL SERVICES:

Stations	13
Firefighters	271
Emergency Call Responses	22,579

RECREATION AND CULTURE:

Parks, Plazas, and Recreation Sites	71
Including:	
Olympic-size swimming pools	2
Basketball courts	33
Tennis courts	60
Football/soccer fields	21
Baseball/softball fields	32
Park/restroom/shelter facilities	37
Playgrounds/play areas	39
Skate Parks	1
Environmental Education Centers	1
Community Centers	8
Libraries	7
Bookmobile	1
Volumes	374,453
Microforms	84,227
Audio Materials	13,516
Video Materials	10,692

EDUCATION:

Elementary Schools	21
Middle Schools	6
High Schools	3
Instructional Personnel	1,096
Students	12,712

2000 POPULATION BY AGE:

1 - 19	23,455
20 - 24	5,746
25 - 44	28,948
45 - 54	13,098
55 - 59	4,555
60 - 64	3,549
65 - 84	13,362
85 +	2,198
Total	<u>94,911</u>

2000 POPULATION BY RACE:

White	69.40%
Black	26.70%
Asian or other Pacific Islander	2.20%
Other Race	1.50%
American Indian, Eskimo or Aleut	0.20%

*Hispanics represent 1.5% of Roanoke's population and are included as part of several categories.

HOUSING:

Total Housing Units	46,388
Type of Single-Family Housing:	
Detached	28,082
Condominium	828
Townhouse	175
Total Single-Family	29,085
Apartment Units	9,784
Semi-Detached	4,134
Duplex Units	1,868
Public Housing Units	1,517
Average Assessed Value of Single-Family Housing Units	\$109,819
Average Assessed Value of Condominiums	\$115,363
Average Assessed Value of Townhouses	\$108,623

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COMPLIANCE SECTION

**CITY OF ROANOKE, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass-Through Grantor/Grant Program	Grant Number	Federal Catalogue Number	Expenditures
<u>Department of Agriculture</u>			
Direct Programs:			
Summer Food Service Program for Children 03-04	02-51-58745	10.559	\$ 62,579
Summer Food Service Program for Children 04-05	02-51-587545	10.559	48,708
			<u>111,287</u>
Passed Through Commonwealth of Virginia			
Department of Agriculture:			
National School Lunch Program - Commodities (1)	-	10.555	280,134
			<u>280,134</u>
Passed Through Commonwealth of Virginia			
Department of Social Services:			
State Administrative Matching Grants for Food Stamp Program	-	10.561	1,531,276
			<u>1,531,276</u>
Passed Through Commonwealth of Virginia			
Department of Youth and Family Services:			
School Breakfast Program	-	10.553	14,030
			<u>14,030</u>
Passed Through Commonwealth of Virginia			
Department of Education:			
National School Lunch Program (2)	-	10.555	5,128,599
			<u>5,128,599</u>
Passed Through Commonwealth of Virginia			
Department of Forestry:			
Urban and Community Forestry FY05	04UCF41	10.664	18,117
			<u>18,117</u>
			<u>7,083,443</u>
<u>Department of Defense</u>			
Direct Programs:			
Selected Reserve Educational Assistance Program (ROTC) (2)	-	12.xxx	74,486
			<u>74,486</u>

CITY OF ROANOKE, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-Through Grantor/Grant Program	Grant Number	Federal Catalogue Number	Expenditures
<u>Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant (3)	B-00-MC-51-0020	14.218	\$ 560
Community Development Block Grant (3)	B-01-MC-51-0020	14.218	74,477
Community Development Block Grant (3)	B-02-MC-51-0020	14.218	293,218
Community Development Block Grant (3)	B-03-MC-51-0020	14.218	995,485
Community Development Block Grant (3)	B-04-MC-51-0020	14.218	1,566,744
Emergency Shelter Grant (4)	S-03-MC-51-0006	14.231	30,214
Emergency Shelter Grant (4)	S-04-MC-51-0006	14.231	76,748
Supportive Housing Program	VA36B202001	14.235	147,529
Shelter Plus Care (5)	VA36C950134	14.238	47,695
HOME Investment in Affordable Housing 98 (6)	M-97-MC-51-0206	14.239	3,534
HOME Investment in Affordable Housing 99 (6)	M-98-MC-51-0206	14.239	1,546
HOME Investment in Affordable Housing 01 (6)	M-00-MC-51-0206	14.239	28,138
HOME Investment in Affordable Housing 02 (6)	M-01-MC-51-0206	14.239	107,734
HOME Investment in Affordable Housing 03 (6)	M-02-MC-51-0206	14.239	103,871
HOME Investment in Affordable Housing 04 (6)	M-03-MC-51-0206	14.239	427,023
HOME Investment in Affordable Housing 05 (6)	M-04-MC-51-0206	14.239	59,038
HOME Program Income (6)	-	14.239	114,105
Lead Hazard Control	VALHBO255-03	14.900	232,125
			<u>4,309,784</u>
<u>Department of Justice</u>			
Direct Programs:			
Federal Forfeiture Program	-	n/a	30,318
Local Law Enforcement Block Grant 02-04	2002-LB-BX-1039	16.592	28,694
Local Law Enforcement Block Grant 03-05	2003-LB-BX-0500	16.592	85,520
Bulletproof Vests FY05	CFDA-16-607	16.607	8,054
			<u>152,586</u>
Passed Through Commonwealth of Virginia			
Department of Criminal Justice Services:			
Juvenile Accountability Incentive Block Grant FY04	04-F3221JB03	16.523	53,881
Juvenile Accountability One Time Special Incentive FY05	05-A4554JB01	16.523	5,659
Juvenile Accountability Incentive Block Grant FY05	05-F3221JB04	16.523	11,870
Victim Witness Assistance FY04	03-18554VW02	16.575	11,283
Victim Witness Assistance FY05	03-18554VW02	16.575	99,067
Records System Improvement FY03	02-A3869CR01	16.579	25,243
Records System Improvement FY05	05-A4486CR03	16.579	8,679
Police Domestic Violence Unit CY04	04-F3153BA03	16.588	17,626
Police Domestic Violence Unit CY05	05-F3153BA04	16.588	22,015
			<u>255,323</u>
			<u>407,909</u>

CITY OF ROANOKE, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-Through Grantor/Grant Program	Grant Number	Federal Catalogue Number	Expenditures
<u>Department of Labor</u>			
Passed Through Commonwealth of Virginia			
Virginia Employment Commission:			
Workforce Investment Act FY04-Adult Program	LWA3-03-03	17.258	\$ 349,842
Workforce Investment Act FY05-Adult Program	LWA3-04-04	17.258	185,401
Workforce Investment Act FY04-Youth Programs	LWA3-03-03	17.259	239,055
Workforce Investment Act FY05-Youth Programs	LWA3-04-04	17.259	306,938
Workforce Investment Act FY04-Dislocated Worker	LWA3-03-03	17.260	193,971
Workforce Investment Act FY05-Dislocated Worker	LWA3-04-04	17.260	81,716
Opportunity Knocks FY04	COM-02-092-04	93.558	1,953
			<u>1,358,876</u>
Passed Through Commonwealth of Virginia			
Department of Education:			
Blue Ridge Technical Academy (2)	00-03-124-BRTA	84.282	5,047
			<u>5,047</u>
			<u>1,363,923</u>
<u>Department of Transportation</u>			
Direct Programs:			
FY02 FTA Capital Assistance	VA-90-X213-00	20.507	73,336
FY03 FTA Capital Assistance	VA-90-X226-00	20.507	297,497
FY04 FTA Capital Assistance	VA-90-X244-00	20.507	393,216
FY04 FTA Capital Assistance	VA-03-0092-00	20.507	114,210
FY05 FTA Operating and Capital Assistance	VA-90-X253-00	20.507	1,977,393
			<u>2,855,652</u>
Passed Through Commonwealth of Virginia			
Department of Motor Vehicles:			
Driver Occupant Awareness Program FY05	154AL-05-51101	20.600	8,720
Flare/Flash DUI Checkpoint FY05	154AL-05-51102	20.600	3,807
Enhanced Speed Enforcement Program FY05	SC-05-51180	20.600	4,572
DWI Enforcement Enhancement Program FY04	154AL04-50436	20.600	8,569
			<u>25,668</u>
			<u>2,881,320</u>
<u>Federal Emergency Management Agency</u>			
Passed Through Commonwealth of Virginia			
Department of Emergency Management:			
Law Enforcement Terrorism Prevention	05-A4526HS04	97.004	170,197
Equipment Program Grant	2003-TE-TX-0183	97.004	74,979
Security Interoperable Communications	2003-MV-T3-0014	97.004	54,179
Hazard Mitigation	VA1406-770-007	97.039	3,543
State and Local All-Hazards Emergency			
Operations Planning Program	PK35137120	97.051	9,451
Citizens Corp Council	PK35197150	97.053	1,290
State Homeland Security Program FY04	2004-TE-TX-003	97.067	107,847
State Homeland Security Program FY05	2005-TE-TX-004	97.067	170,563
			<u>592,049</u>

CITY OF ROANOKE, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-Through Grantor/Grant Program	Grant Number	Federal Catalogue Number	Expenditures
Passed Through Commonwealth of Virginia			
Department of Emergency Services:			
Emergency Management Assistance	-	97.042	\$ 38,770
			38,770
			630,819
<u>Department of Education</u>			
Direct Programs:			
Grants Management 02-03 (2)	124-03	84.165	5,126
Grants Management 03-04 (2)	124-03	84.165	81,618
Grants Management 04-05 (2)	124-0405	84.165	822
Fleming Community Learning Center (2)	124-60565/S287C040047-FH	84.287	2,756
Addison Community Learning Center 04-05 (2)	124-60565/S287C030047	84.287	144,035
Addison Community Learning Center (2)	124-60565/S287C020047	84.287	39,436
			273,793
Passed Through Commonwealth of Virginia			
Department of Education:			
Adult Education in Jails 05 (2)	124-0405	84.002	24,536
Adult Basic Ed 03-04 (2)	124-0304	84.002	19,677
Adult Basic Ed 04-05 (2)	V002A040046	84.002	194,446
Regional Adult Literacy 03-04 (2)	124-0304	84.002	56,282
Regional Adult Literacy 04-05 (2)	124-0405	84.002	196,116
Regional ABE 03-04 (2)	124-0304	84.002	18,244
Regional ABE 04-05 (2)	V002A040046	84.002	12,228
Title I Winter 05 (2)	124-05-1	84.010	4,107,300
Title I Summer 04 (2)	124-04-2	84.010	246,908
Title I Local Delinquency 05 (2)	124-04-5-42935	84.010	53,357
Title I School Improvements 01-02 (2)	124-I0102	84.010	511
Title I School Improvements RAMS 03-04 (2)	124-03-6	84.010	1,693
Title I School Improvements RAMS 04-05 (2)	S010A030046	84.010	53,159
Title I Winter 04 (2)	124-04-1	84.010	128,581
Title I Delinquent 04 (2)	124-03-5-42935	84.010	505
Title I Carryover (2)	124-05-3	84.010	447,882
Detention Center Reading Program (2)	124-0405	84.010	3,707
Flow Through 02-03 (2)	124-0203FT	84.027	69,613
Flow Through 04 (2)	124-0304FT	84.027	1,122,446
Flow Through 05 (2)	124-0405FT	84.027	1,249,994
Special Ed Capacity Building 04 (2)	124-0304SL	84.027	10,276
Special Ed Capacity Building 05 (2)	124-04SL	84.027	6,977
Spec Ed Interpreter Training 04 (2)	124-SY04INT	84.027	3,472
Perkins Act Fund 03-04 (2)	124-0304	84.048	2,602
Perkins Act Fund 04-05 (2)	124-0405	84.048	394,666
Preschool Incentive 04 (2)	124-PS0304	84.173	52,831
Preschool Incentive 05 (2)	124-PS0405A	84.173	101,823
Drug Free Schools 03-04 (2)	SDFSCA-124-2003/04	84.186	34,177
Drug Free Schools 04-05 (2)	SDFSCA-124-05-R	84.186	112,776
PHHS Youth Court 04-05 (2)	86871-01P-04	84.190	62,367
Homeless Assistance Program 03-04 (2)	912-04-1	84.196	7,936
Homeless Assistance Program 04-05 (2)	G12405	84.196	50,975

CITY OF ROANOKE, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-Through Grantor/Grant Program	Grant Number	Federal Catalogue Number	Expenditures
Passed Through Commonwealth of Virginia			
Department of Education (continued):			
Even Start 04-05 (2)	VA-ES-Roanoke-YR7	84.213	\$ 127,998
Even Start 03-04 (2)	ES-124-03-Y2	84.213	2,408
Small Learning Community 03 (2)	S215L022102	84.215	96,413
Smaller Learning Community W.F. (2)	V315L032198	84.215	181,379
Title V-A 04-05 (2)	S298A040047	84.298	88,186
Title V-A 03-04 (2)	124-49005-A03-1	84.298	23,253
Enhance Education Thru Tech 04 (2)	84-318X	84.318	24,997
Enhance Education Thru Tech 05 (2)	84-318X	84.318	39,494
Calculator Grant 05 (2)	Title I Assessment/2003	84.318	49,638
Comprehensive School Reform Demonstration			
CSR Forest Park 04 (2)	124/42960/S332A020048	84.332	11,368
CSR Highland Park 04 (2)	124/42960/S332A020048	84.332	7,867
CSR Round Hill 04 (2)	124/42960/S332A020048	84.332	3,358
CSR Oakland 04 (2)	124/42960/S332A020048	84.332	7,163
CSR Forest Park 05 (2)	124/42960/A03-8	84.332	24,229
CSR Highland Park 05 (2)	124/42960/A03-8	84.332	24,547
CSR Preston Park 05 (2)	124/42960/A03-8	84.332	50,000
CSR Round Hill 05 (2)	124/42960/A03-8	84.332	46,473
CSR Huff Lane 05 (2)	124/42960/A03-8	84.332	80,171
CSR Oakland 05 (2)	124/42960/A03-8	84.332	68,550
CSR NTLA 04 (2)	124/42960/S332A020048	84.332	25,492
Title III 04 (2)	LEPI0124-03	84.365	43,492
Title III 05 (2)	LEPI0124-0405	84.365	46,832
Title II-A 05 (2)	124-04-61480-S367A040044	84.367	592,997
Title II-A (2)	124-03	84.367	541,080
Learn and Serve 05 (2)	124-4/03KSSVA001	94.004	41,250
			<u>11,096,698</u>
			<u>11,370,491</u>
<u>Department of Health and Human Services</u>			
Direct Programs:			
Runaway and Homeless Youth	03CY0433/1	93.623	29,650
Runaway and Homeless Youth	03CY0433/2	93.623	93,713
			<u>123,363</u>
Passed Through Commonwealth of Virginia			
Department of Social Services:			
Promoting Safe and Stable Families	-	93.556	7,639
Temporary Assistance for Needy Families	-	93.558	1,469,329
Refugee & Entrant Assistance-State Administered	-	93.566	33,104
Low-Income Home Energy Assistance	-	93.568	57,790
Child Care and Development	-	93.575	1,508,992
Child Care Mandatory-Child Care and Development Fund	-	93.596	1,014,351
Education & Training Vouchers Program	-	93.599	7,654
Foster Care Title IV-E	-	93.658	2,194,099
Adoption Assistance	-	93.659	531,298
Social Services Block Grant	-	93.667	1,157,339
Foster Care Independence Program	-	93.674	25,443
Medical Assistance Program	-	93.778	1,061,135
			<u>9,068,173</u>

**CITY OF ROANOKE, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/Grant Program</u>	<u>Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
Passed Through Commonwealth of Virginia Department of Education: Refugee School Impact Grant 04 (2)	90ZE0066/01	93.576	\$ 23,034 <u>23,034</u> <u>9,214,570</u>
<u>Institute of Museums and Library Services</u> Passed Through Commonwealth of Virginia Library of Virginia: WOW-We're On The Web!	FY02-MG-546001569B	45.310	<u>3,500</u> <u>3,500</u>
Grand Total Federal Financial Assistance			\$ <u>37,340,245</u>

Notes:

This schedule is presented on the cash basis, except for Social Services grants which are presented on the accrual basis.

(1) The value reported for disbursements with respect to commodities distributed by the Federal government is fair market value as furnished by the respective department of the Federal government.

(2) This schedule includes grants of the School Board, a component unit of the City of Roanoke.

(3) The amount of federal funds passed through to subgrantees totals \$2,930,484.

(4) The amount of federal funds passed through to subgrantees totals \$106,962.

(5) The amount of federal funds passed through to subgrantees totals \$47,695.

(6) The amount of federal funds passed through to subgrantees totals \$844,989.

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KPMG LLP
Suite 1710
10 South Jefferson Street
Roanoke, VA 24011-1331

**Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Members of
City Council
City of Roanoke, Virginia:

We have audited the financial statements of the City of Roanoke, Virginia (the City) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Roanoke in a separate letter dated November 23, 2005.

This report is intended solely for the information and use of the audit committee of City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 23, 2005



KPMG LLP
Suite 1710
10 South Jefferson Street
Roanoke, VA 24011-1331

**Report on Compliance with Requirements
Applicable to Each Major Program and on
Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Honorable Members of
City Council
City of Roanoke, Virginia:

Compliance

We have audited the compliance of the City of Roanoke, Virginia (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Roanoke, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

Internal Control over Compliance

The management of the City of Roanoke, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grant agreements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the audit committee of City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 23, 2005



KPMG LLP
Suite 1710
10 South Jefferson Street
Roanoke, VA 24011-1331

**Report on Compliance with Commonwealth of Virginia
Laws, Regulations, Contracts and Grant Agreements**

The Honorable Members of
City Council
City of Roanoke, Virginia:

We have audited the financial statements of the City of Roanoke, Virginia (the City) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 23, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grant agreements applicable to the City is the responsibility of the management of the City. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grant agreements. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The following is a summary of the Commonwealth of Virginia laws, regulations, contracts and grant agreements, as contained in *Specifications for Audits of Counties, Cities and Towns*, for which we performed tests of compliance:

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Debt Provisions
Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Enhanced 911 Service Taxes
Comprehensive Youth Services Act
Education
Highway Maintenance Funds
Personal Property Tax Relief Act
Social Services



The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under the *Specifications for Audits of Counties, Cities and Towns*.

This report is intended solely for the information and use of the audit committee of City Council, management, the Auditor of Public Accounts of the Commonwealth of Virginia, and the applicable state agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 23, 2005

CITY OF ROANOKE, VIRGINIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: unqualified opinion.
- (b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: none noted. Material weaknesses: none.
- (c) Noncompliance which is material to the basic financial statements: none.
- (d) Reportable conditions in internal control over major programs: yes, finding 05-1. Material weaknesses: no.
- (e) The type of report issued on compliance for major programs: unqualified opinion.
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: yes.
- (g) Major programs: Title II-A (CFDA #84.367); Child Care Cluster (CFDA #93.575 and 93.596); Child Nutrition Cluster (CFDA #10.555); Food Stamp Cluster (CFDA #10.561); Special Education Cluster (CFDA #84.027 and 84.173) Workforce Investment Act (WIA) (CFDA #17.258, 17.259 and 17.260).
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$1,120,207.
- (i) Auditee qualified as a low risk auditee under Section 530 of OMB Circular A-133: yes.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None.

(3) Findings and Questioned Costs Relating to Federal Awards:

Finding 05-1 – Allowable Costs/Cost Principles

Program – Title II-A (CFDA #84.367) and Special Education Cluster (CFDA #84.027 and 84.173)

Condition – Time certifications for employees that work 100% on Federal programs as required by OMB Circular A-87 were not prepared and documented in the personnel files.

Criteria – OMB Circular A-87 Attachment B Section II, Paragraph h. requires the following:

- 1. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- 2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

CITY OF ROANOKE, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

3. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - 1) More than one Federal award,
 - 2) A Federal award and a non-Federal award,
 - 3) An indirect cost activity and a direct cost activity,
 - 4) Two or more indirect activities which are allocated using different allocation bases, or
 - 5) An unallowable activity and a direct or indirect cost activity.
5. Personnel activity reports or equivalent documentation must meet the following standards:
 - 1) They must account for the total activity for which each employee is compensated,
 - 2) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - 3) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - 4) They must be signed by the employee.
6. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - 1) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - 2) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - 3) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Effect – Noncompliance with the program requirements may result in reduced Federal funding as a result of unallowable employee costs charged to a Federal grant.

CITY OF ROANOKE, VIRGINIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Questioned costs – Undetermined; however, total payroll related expenditures for the programs noted approximated \$2,086,000 for the fiscal year ended June 30, 2005.

Recommendation – Payroll policies should include procedures to ensure that the necessary time certifications are performed and documented as required by OMB Circular A-87.

- Management response – A documented procedure has been developed for certification of future payroll expenses in accordance with OMB Circular A-87. The City, including the City's School System, will continue to provide training and instruct responsible grant administrators to ensure all federal requirements are properly followed on a yearly basis.

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Department of Finance
City of Roanoke, Virginia

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Ann H. Shawver, CPA

Director of Finance
Deputy Director of Finance

Accounting / Accounts Payable

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Beverly L. Smith
Paul R. Workman, CPA

Accounts Payable Clerk
Accountant
Accounts Payable Supervisor
Accountant
Manager of Accounting Services
Accounts Payable Clerk
Junior Accountant
Senior Accountant
Account Technician
Accounts Payable Data Coordinator
Senior Accountant

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Patricia A. Canady

Finance Administrative Secretary
Administrative Secretary

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Suzanne F. Barnett
Jody A. Lawson
Paula S. Quinn

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Payroll Accountant
Payroll Supervisor
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